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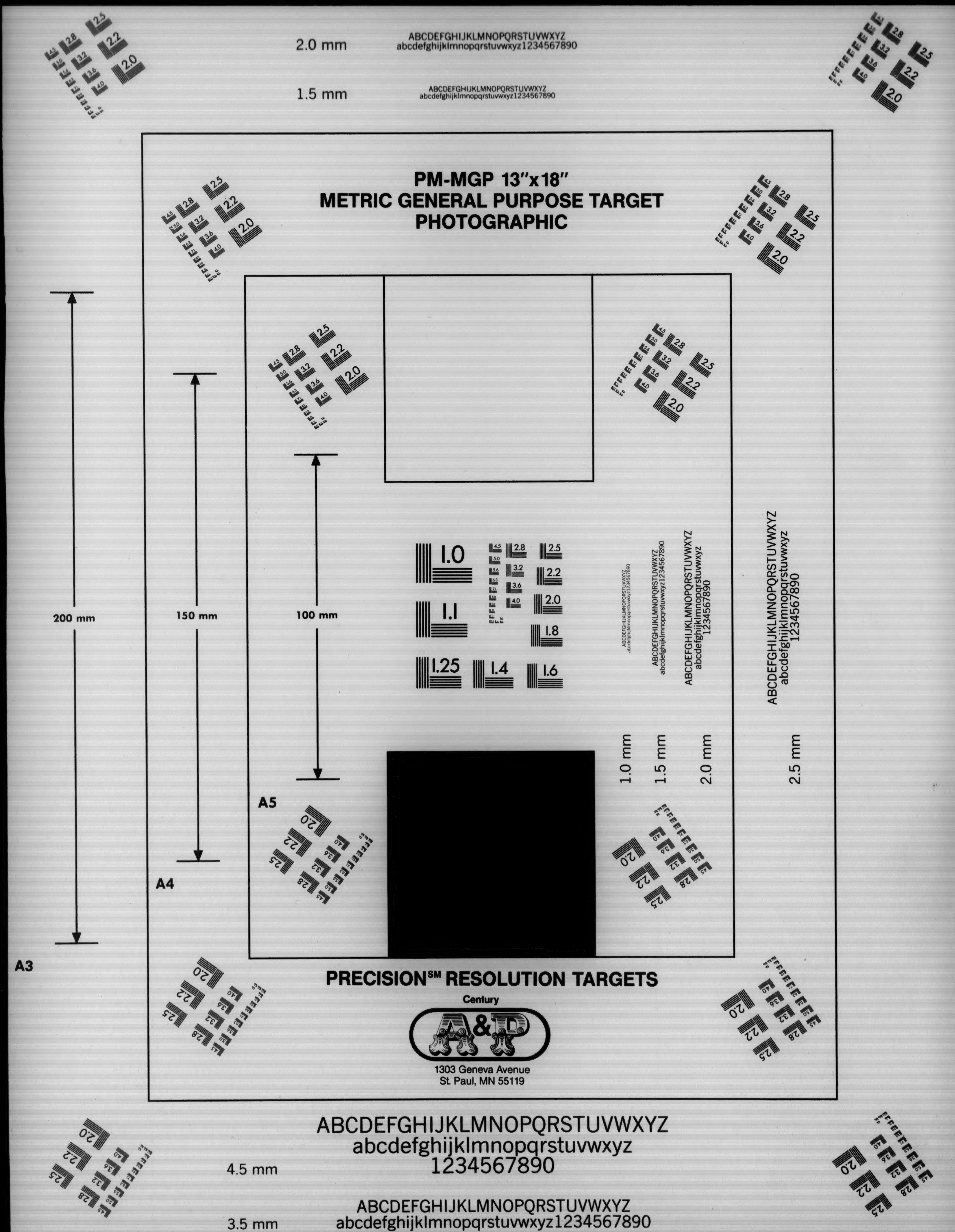
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IMPORT PURCHASING

PRINCIPLES AND PROBLEMS

BY

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PREFACE

The problems in Importing here presented have been collected in connection with a course in Import Purchasing given at the Harvard Graduate School of Business Administration. Courses in Foreign Trade as given in American universities have been concerned very largely with export merchandising. Because of the overemphasis that has been placed on the export phase of foreign trade, and because of the growing importance of importing in this country resulting in an increasing interest on the part of American business men in import problems and policies, this volume has been prepared. It is hoped that it may serve not only as a text for college and university use, but also that it may meet the interest and needs of business men who are concerned with importing whether as merchants, manufacturers, or bankers.

Because the literature dealing with the organization and problems of importing is limited in amount and widely scattered, the first part of this book dealing with "The Principles of Importing" has been prepared. This will serve as background for the discussion of the actual problems in import policies and methods presented in Part II. The problems of Part II will amplify and make concrete much of the material of Part I, and at the same time give opportunity for the application of business principles to actual business situations.

The grouping of the problems in Part II, while generally parallelling the chapters in Part I, is not strictly according to the chapter divisions in Part I. A particular problem often involves the consideration of several principles and features other than the dominant one, or the one which the problem for the time being throws into relief. A single problem may therefore involve consideration of the topics discussed in several chapters of Part I. The student will do well for this reason to read all of Part I before taking up Part II.

The problems of Part II are taken from the actual experiences

of business houses. They are real, not fictitious, problems. In most cases, however, the name of the firm used is fictitious for the purpose of disguise.

In its use as a text the author suggests that Chapters I and II be made the basis of class discussion relative to the economics of importing without immediate reference to the problems in Part II. Greater or less time may be given to these chapters, dependent upon the length of the course and the needs and interests of the class. Following the discussion of the economics of importing, applied particularly to the United States, the student may be required to read carefully Chapters III to VIII; and at the same time assignments and discussions of the problems in Part II may be begun. Henceforth the text in Part I will serve as background and reference for the discussion of the problems and cases. Probably at least 80% of the time devoted to the course can best be given to the problems in Part II.

In the preparation of this volume, I am indebted to many more than can be mentioned personally. Without the leadership of Dean W. B. Donham in the development of the case or problem method of teaching business, and his constant encouragement, this book would not have been possible. A large proportion of the problems were collected through the Bureau of Business Research of Harvard University, and I am under great obligations to the Bureau's former Director, Professor Melvin T. Copeland, and to present and former members of the Staff of the Bureau, particularly to Messrs. Russell M. Sanders, Arno N. Johnson, Robert S. Swain, J. J. Babb, Gaylord M. Gates, and P. W. Thayer. I would mention also the always cheerful and willing assistance of the Bureau's former secretary, Miss Mary E. Osgood.

The many business men who have furnished the problem material cannot be enumerated. I should like, however, to mention Mr. C. H. Powell, of the C. H. Powell Company, of Boston, who critically read portions of the text in Part I and made several valuable suggestions, and also, for similar services, Mr. R. M. Skinner, of Bingham and Company, of New York; Mr. Charles Pastine, of Pastine and Company, of Boston; Mr. H. H. Oakes, of the First National Bank of Boston; and Mr. C. C. McCauley, also of the First National Bank, for the letter of credit and other forms used in Chapter VII. My special thanks are due to Mr. George

Weber, now of the University of Texas, for his assistance in verifying the statistical material of Chapter II and in drawing most of the diagrams and charts used throughout the book. My secretary, Miss S. E. Danforth, also has given effective help in preparing the manuscript.

G. B. Roorbach

Calcutta, India,
March 10, 1927

Albert B. Newton
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PART I

PRINCIPLES OF IMPORTING

I

INTRODUCTORY:

THE BUSINESS OF IMPORTING

Importing is that branch of business concerned with bringing merchandise into a country from foreign lands. It is a part of the broad field of purchasing. Just as exporting is that branch of selling which looks to foreign markets, so importing is that phase of purchasing that deals with foreign merchandise and seeks foreign sources of supply. As a part of the broader field of buying, importing is governed by the same general principles that govern domestic purchasing. It differs from domestic purchasing chiefly because the conduct of business across international boundaries, ordinarily carried on through long distances involving ocean transportation and with peoples who use different languages, currencies, and commercial units and follow different business customs, is more complicated and presents many problems both in policy and in technique that are not encountered in doing business through the accustomed channels in one's own country. 1

There are also other differences. For example, international business is usually conducted under greater governmental restrictions and regulations than domestic business. In the case of the United States, for instance, the purchaser of goods abroad has to solve the intricate complications of the American tariff and to meet the harassing rules and regulations that are involved in our customs administration. He must also meet the requirements of foreign governments in regard to the export, transportation, and production of the goods he desires to import into this country. He must face many situations in foreign lands over which neither he nor his government has any control, such, for example, as the regulations concerning rubber production in the Far East by the British, or over nitrate prices by the Nitrate Association in Chile. 2

Because of these and other conditions peculiar to foreign purchasing, the business of the importer—be he a broker, a commission agent, a wholesale or retail merchant, or a manufacturer—must solve problems of organization, of method, of financing, of transportation, of general purchasing policy that often are distinct from those in domestic business. Importing, like exporting, has its peculiar problems that call for training and experience in their handling, and skill in the technique of their detailed operation. Importing has become, therefore, in all commercial countries a specialized business.

As is common to all merchandising business, importing is divided into several distinct fields of specialization. Importers may be merchants who buy and sell foreign merchandise as wholesale middlemen. They may be import commission agents who buy in foreign countries on a commission, or import brokers whose function is merely to bring the foreign seller or the domestic importer in touch with the domestic buyer. There are custom-house brokers whose special function is to handle the technical details connected with entering goods through the custom-house and to look after the details required by the import tariff. Custom-house brokerage is peculiarly a service connected with importing. There are other brokers who specialize in other phases of importing, such as the freight forwarder, the bonded warehouseman, and the "drawback" specialist. The above are all middlemen performing services for the ultimate purchaser of imported merchandise. Men engaged in these enterprises may confine themselves strictly to importing, or they may combine the handling of imported goods with similar services and functions in domestic trade. In fact, middlemen in domestic merchandising frequently face the question of adding importing functions to their existing domestic business.

The manufacturer who consumes imported raw materials and supplies, or the retail merchant who sells imported merchandise, faces the problem as to the best method of securing import requirements. Shall he depend entirely upon the middlemen, or shall he directly import from the foreign country? If imports are made directly, the question of organization and method both in this country and in the foreign country must be met. Shall he buy from a foreign merchant, go direct to the foreign producer, or establish his own purchasing organization abroad?

From the point of view of any individual business organization, the immediate reasons for engaging in importing are similar to the reasons for engaging in exporting or in any other line of business activity—namely, the making of gain through rendering business services, or the increase of profits through purchase of foreign goods. If the wholesale or retail merchant can purchase imported goods for resale in the American market at a cost less than he can obtain goods in the domestic market, or if higher prices can be obtained for imported wares, or if there is a preference for imported products, he will import for the sake of the greater profit he can make, just as the exporter will sell in foreign markets for similar reasons. Likewise, the manufacturer will be guided in the purchase of raw materials. Even if there is no direct price advantage to be gained by purchasing abroad, importing may be desirable in order that the merchant or the manufacturer may keep open a wider range of sources, or be better assured of constant supplies, or better enabled to eliminate possible price fluctuations, than if he were dependent on a single market. For the reason that a selling organization desires to keep its eggs in more than one basket by not depending on a single market, so a purchaser will plan to keep open many channels for acquiring necessary supplies. If he depends on one source, any one of many causes may seriously interfere with the regular flow of supplies. Crop failures, or revolutions, or strikes, or war, or changes in laws, are such conditions; but they rarely affect all countries at the same time.

Certain intangible benefits also may be derived from importing. The retail merchant, for example, who buys in foreign markets is likely to profit by his contacts with those markets, not only in obtaining better prices, or in uncovering new or unusual merchandise, but also through increased knowledge of the methods and practices of foreign merchants and the acquisition of new ideas that may be applicable to his own business. Foreign trading, whether importing or exporting, is an effective means of preventing stagnation or decay in one's domestic business.

While the problems of any individual business are from day to day immediately associated with the conduct of that particular business as a profit-making enterprise, the far-sighted business man desires to see his individual business in the light of its relationship to the whole economic structure of his com-

munity or country. He needs to understand how his business is related to national welfare, as well as to his own individual welfare. For, in the long run, unless national economic welfare is served by his business, the business is upon an insecure foundation. Furthermore, the progressive and enlightened executive wishes to be assured that his own line of business is serving national well-being as well as promoting his own; or, at least, he desires that his business shall not run contrary to national prosperity. What, then, may be asked, is the relation of importing to national welfare? From the point of view of the country as a whole what services does this branch of business render?

It is commonly said that foreign trade is today one of the essential elements in the business and economic prosperity of the United States. In most discussions on foreign trade in the United States, however, the emphasis has been placed on exporting. "The prosperity of the United States is dependent on foreign markets" is a statement typical of the description of the relation of national economic welfare to foreign trade. The emphasis is usually on selling. It is not strange that producers of goods for sale, whether from factory, mine, forest, or farm, should first relate foreign trade to selling. The advantages of larger and expanding markets are obvious. But, while it is less obvious, it is equally true that, considered from the point of view of the nation as a whole, imports are necessary for national prosperity.

This follows because many imported products are of themselves absolutely indispensable to our industrial and commercial well-being and to our individual comfort; also, because by importing products that cannot be produced effectively at home, a country can devote its energies to the production of those things which will yield it the largest returns both for home consumption and for export. In fact, the need for foreign trade arises primarily from the demand for goods not obtainable, or not obtainable to advantage, within a country's own borders. One of the chief advantages of export-trade expansion in any country, considered from a national point of view, comes from the ability which such expansion gives to meeting the desire and the need of the people to secure greater quantities and larger varieties of goods to satisfy the necessities of industry and the desire for higher standards of living.

The necessity for foreign trade, both import and export, increases as the world's economic life develops and expands. The personal wants of primitive peoples, or of people in less advanced countries, are readily satisfied and their simple industries require few raw materials not locally obtainable. As civilization has advanced, however, and industrial development taken place, standards of living have been raised and human wants expanded beyond the possibilities of their being supplied by the resources and industries within the confines of any one country. There is no country today so large or so rich in resources that it can support alone a modern industrial society, feed its people, and satisfy the ever-advancing standards of living demanded by an enlightened population. Neither is there any nation so small or so poor that it wholly excludes foreign products. Necessity finds a way of obtaining those things people greatly need or desire. Trade between nations, therefore, has expanded as existing industrial nations have grown and as knowledge and invention have increased; it must continue to expand as new or backward nations develop and further progress takes place in the older industrial countries.

If a country were self-sufficient, if its resources were such that it could produce to advantage all that it needed so that imports were unnecessary, there would of course be no need of exporting. Under such conditions, conceivably, there would be no international exchange of products, no foreign trade. But no such relation exists in the world of today; nor can it exist. Because natural resources are so unevenly scattered over the surface of the earth; because some countries have more advantageous geographical positions for trade than others; because populations vary so widely in quality and in density of distribution; because human demands are becoming increasingly diversified and more and more complex; because an international division of labor, under these conditions of geographic, social, and economic inequalities, has manifest advantages; for these and similar reasons, foreign trade for a progressive country is not only necessary but highly desirable and profitable.

There is a necessary, but varying, relationship between exports and imports. There could be no important development of international trade over a long period that did not consist of both imports and exports. However, as will be shown in Chapter II,

the relationship of imports to exports depends upon the stage of development of a country's trade, its position as a debtor or as a creditor nation, and the extent to which items other than the exchange of merchandise enter into the commercial relations of one country with another.

Foreign trade is not a mere barter of goods across international boundaries. Exports of merchandise may be paid for by means other than the import of merchandise, and the settlement for imports may likewise be made otherwise than by exporting merchandise. Gold may be used in settlement, but payments of international obligations in gold are relatively small, for the reason that the amount of gold available is small relatively to the total value of trade. Furthermore, excessive movements of gold into or out of a country are likely to set up influences that are disturbing to the internal economic life of the country and to its foreign trade. More important than gold are "services." These services, sometimes called "invisible exports," may be shipping services; or banking, credit, or insurance facilities; or even facilities for pleasure, health, or education which result in important expenditures by travelers. Such services command in exchange imported merchandise as truly as goods or gold exported, although they usually are small in value relative to the "visible exports" represented by the products of mine and soil and factory.

Capital also may be exported. By making loans to foreign countries, or by investment in foreign enterprises, or by extension of credits in one form or another to foreign purchasers, a country may expand its exports of merchandise far in excess of the immediate payments received in merchandise imports or in imports of gold or of services. Such advances of capital and credit, however, merely postpone to a future date the merchandise importations necessary to repay the loans and to meet payments of interest and dividends. If imports could not be increased ultimately, the lending country would be the loser. There would be no object in exporting either goods or capital if payments could not be developed. Since gold and services for most nations must represent but a comparatively small part of the means of settling international obligations, the burden of settlement for exports rests, sooner or later, on the import of merchandise. Exports may be stimulated greatly at any given time by an export of capital; but this involves an ultimate increase of imports.

The relation of the value of merchandise exports to imports, therefore, at any given time depends upon the position that the country occupies as a lending or as a borrowing country. A lending nation will at first have an excess of exports; later, an excess of imports. A borrowing country, during the period of borrowing, will have an excess of imports; during the process of repayment, an excess of exports. But whatever the relationship, if the "invisible items" remain constant, and no fresh loans or borrowings are made, an increase of exports must be accompanied by an increase of imports, and an increase of imports by an increase of exports. Even if a country's imports are already in excess of exports, it may be possible to maintain an increase in exports by a further increase in imports. The export trade, therefore, at a given time may be directly conditioned by the amount of imports. Considered over a period of years, the export trade of a country is limited not only by the ability of the exporting country to produce and of foreign countries to consume, but also by the ability and the willingness of the exporting country to take the products of foreign countries in payment for its exports.

The importer is fully as vital to the economic and industrial prosperity of our country as the exporter. The capable performance of the importer's functions, therefore, is a matter of importance in considering the organization and management of business. Nevertheless, very little attention has been given to the study of import organization, or to the business problems of the importer. On the contrary, the importer has been too frequently looked upon as an undesirable citizen, one whose business was a nefarious one, not to be followed by a really patriotic American. Not only have many business men so regarded it, but the government has seemed at times also so to consider it. Not simply that Congress has put restrictions upon imports in the form of excessive customs duties (the wisdom of protective tariffs is not here considered) but the administrative provisions of our tariff and customs laws in some instances have been so framed and administered as to place difficulties in the path of the importer and to surround his business with a mass of red tape that has hampered his legitimate activities at nearly every step.

The purpose of this book is to set forth the principles and the problems connected with importing as a business. Part I gives

an analysis of the import trade of the United States, an account of the organization of importing, and a summary of the principles that apply to the management and technique of import purchasing. Part I is to serve as the background for the study of the problems of importing given in Part II.

The problems in Part II are less concerned with the detailed technique of importing than with the broader considerations of organization, management, and policy as related to the import of goods by the specialized importer, by the wholesale and retail merchant, and by the manufacturer. The problems are actual problems taken out of the experience and practice of American firms that are daily meeting and deciding similar questions. They have been selected as illustrations of types of executive problems in importing around which the principles and practices of importing may be concretely studied and critically analyzed.

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II

THE IMPORT TRADE OF THE UNITED STATES

THE IMPORT TRADE AND ITS RELATION TO EXPORTS AND THE INTERNATIONAL BALANCE OF TRADE

The nature of the development of the import trade of the United States and its probable future trends can better be understood if it is considered in comparison with and in relation to the export trade. Table 1 shows the merchandise imports and exports of the United States from 1820 to 1925, and Figure 1 shows graphically the variations in imports and exports by years up to the outbreak of the World War. Variations in per capita trade are shown in Table 2. While there has been during the century a generally continuous increase in the value of both imports and exports, the rate of increase has greatly varied from period to period, and the relation of imports to exports has changed markedly.

Before 1850 the growth of United States foreign trade was slow, both as to totals and in its per capita importance. The imports per capita, which in 1820 were $7.71, were only $7.48 in 1850. In fact, up to 1837 trade increased but slightly in total value and was declining in per capita importance. Before 1838 imports exceeded exports in value. This excess of imports was made possible principally by the earnings of the American merchant marine and by investments by Europeans in new enterprises in the United States, payments for both of which were received in the form of imported goods. From 1838 to 1849, however, exports increased more rapidly, partly as a result of the stimulation to exports following the expansion of the country's industries and agriculture, partly as a result of the necessity of paying interest on the capital previously borrowed. Especially was the export of raw cotton developed. At the same time imports were less stimulated since foreign investments in the United States following the depression of 1837 declined and the decreasing earnings from the diminishing American merchant marine were

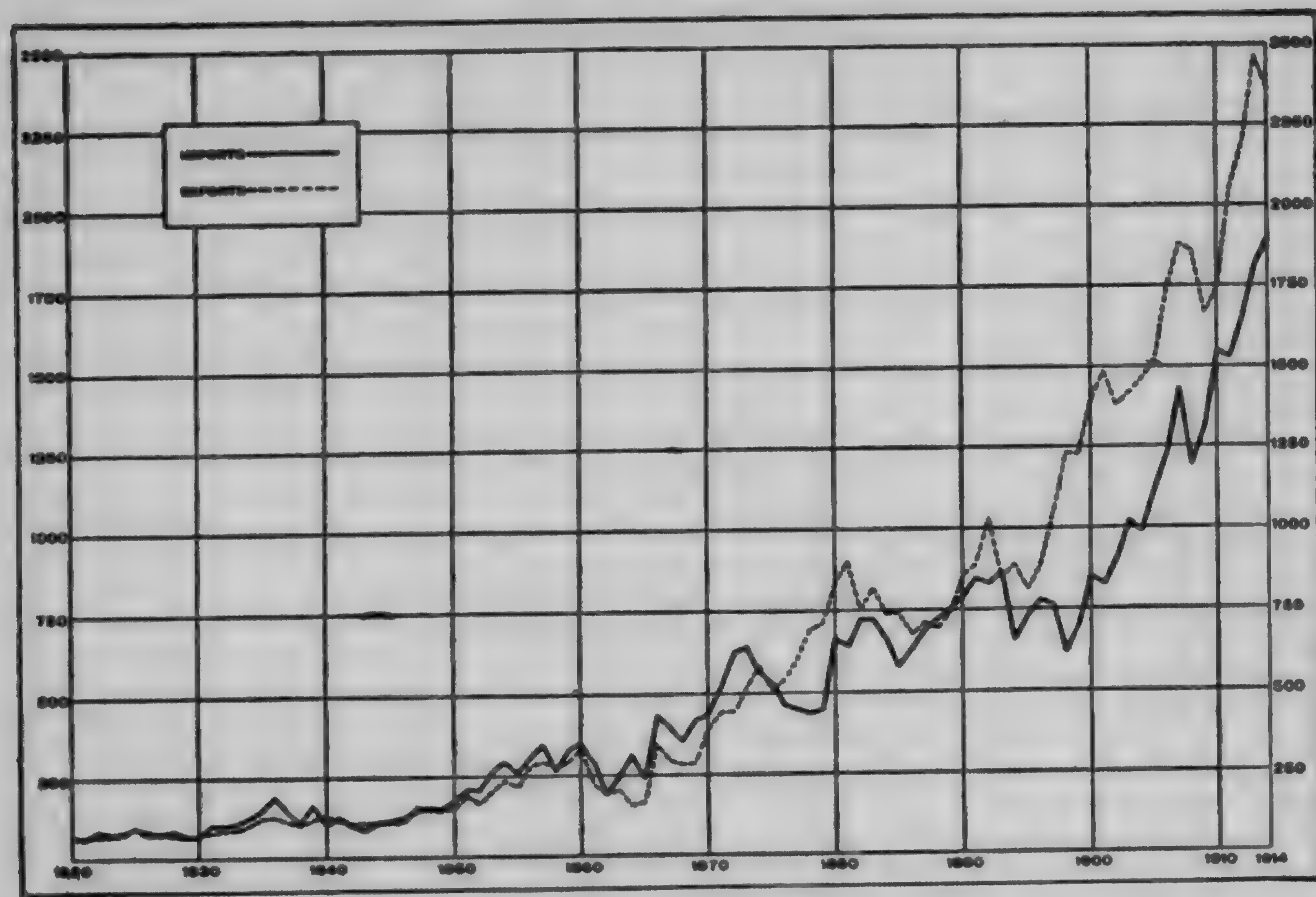


Figure 1: Imports and exports of the United States, 1820-1914.

needed to balance the indebtedness of America on account of interest payments rather than to pay for imported merchandise. From 1838 to 1849, therefore, exports of merchandise came slightly to exceed imports in value, reversing the balance that maintained previous to 1838.[1] There was, however, but slight expansion in the total trade.

The period from 1850 to 1896 differed from the preceding one in that it was a period of moderately rapid expansion of the foreign trade of the United States. It was similar to it in that the import balance, which after 1850 had again been reestablished, was overturned during the period to an export balance. The rate of trade expansion varied during the period. From 1850 to 1873 the increase of imports was rapid, except for the slump during the Civil War. Imports per capita increased from $7.48 in 1850 to $15.91 in 1873. Exports increased less rapidly and from 1850 to 1873 imports were much in excess of exports.

In only two years did exports exceed imports and then only by very small margins. The expansion of imports from 1850 to 1873 was mainly a result of very large foreign capital investments in the United States during the period of railroad building and

[1] See Bullock, Williams, and Tucker, "The Balance of Trade of the United States," *Review of Economic Statistics*, July, 1919.

TABLE 1

IMPORTS AND EXPORTS OF THE UNITED STATES AND BALANCE OF TRADE, 1820-1925

(Millions of Dollars)

Yearly Average*	Imports	Exports	Excess Exports (+) or Imports (−)
1820-29	74	69	−5
1830-39	116	98	−18
1840-49	111	117	+6
1850-59	266	230	−36
1860-64	278	221	−57
1865-69	369	275	−94
1870-74	558	478	−80
1875-79	466	612	+146
1880-84	685	811	+126
1885-89	675	715	+40
1890-94	797	902	+105
1895-99	718	1,040	+322
1900-04	919	1,429	+510
1905-09	1,257	1,733	+476
1910-14	1,689	2,166	+477
1915-19	2,515	5,309	+2,794
1920-24	3,660	5,061	+1,401
1913	1,813	2,466	+653
1920	5,278	8,228	+2,950
1921	2,509	4,485	+1,976
1922	3,113	3,832	+719
1923	3,792	4,167	+375
1924	3,610	4,591	+981
1925	4,228	4,909	+681

* Fiscal year average to and including 1919; calendar years 1920 to 1925.

expansion of agriculture that followed the Civil War. It was also the result of the discovery of gold in California and the consequent large gold production by means of which payment for excess imports was further made possible.[2]

Following 1873, however, the import trade, while increasing in value and in quantity, did not keep pace with the growth of population. Exports, on the other hand, were stimulated and, except for the years 1875, 1888, and 1893, exceeded imports every year after 1873 (Figure 1). This expansion of exports was made possible by the greatly expanded production power of the United States resulting from the era of railroad building and the spread of population into the West. Excess exports were

[2] Bullock, Williams, and Tucker, *opus cit.*

TABLE 2

EXPORTS AND IMPORTS PER CAPITA*

Fiscal Years	Exports	Imports
1820	$ 7.22	$ 7.71
1830	5.57	4.87
1840	7.25	5.76
1850	6.23	7.48
1860	10.61	11.25
1865	4.78	6.87
1870	9.77	11.06
1875	11.36	11.98
1880	16.43	12.51
1885	12.94	10.32
1890	13.41	12.14
1895	11.40	10.51
1900	18.01	10.91
1905	17.45	12.71
1910	18.26	16.52
1914	23.44	19.18
1920	73.59	47.22
1925†	43.25	37.25

* *Statistical Abstract of the United States*, 1923, pp. 799-800.
† Estimated.

necessary in order to meet interest payments on the funds previously borrowed and also in order that settlement could be made for other invisible items in our trade account that previously had been small or non-existent. Chief among these invisible items were ocean freights payable to foreign merchant marines and tourist expenditures resulting from increasing American travel abroad. The American merchant marine had become insignificant as a carrier of foreign commerce after the Civil War, thus making it necessary each year for American merchants to provide large sums for payments to foreign shipowners.

However, until 1896, the foreign trade of the United States, both imports and exports, remained nearly stationary as measured by its per capita importance; that is, it barely kept pace with the rapidly growing population. The per capita value of imports ranged between $10 and $13, a less amount than in the early seventies. Per capita exports increased from $12.12 in 1873 to $17.23 in 1881, but then declined, although always remaining more important than before 1873.

The period from 1850 to 1896 may be characterized, therefore, as a period of moderate expansion of our foreign trade, during the early part of which—that is, before 1873—imports were rapidly increased and exceeded exports in value, while during the later part, due to the declining importance of imports, the trade balance was overturned and exports exceeded imports. This period was similar, therefore, to the 1820-1850 period in that the relation of imports to exports was reversed, imports exceeding exports during periods of foreign borrowing as the country expanded, but exports gaining the ascendency when production increased and interest and dividend payments became large as a result of the previous borrowings.

A period of large increase in the foreign trade of the United States followed 1896. While both the export and import trade increased, exports expanded more rapidly, creating an enormous "favorable trade balance." Exports increased from $883,000,000, or $12.18 per capita, in 1896, to $2,466,000,000, or $24.79 per capita, in 1913. The increase in imports was not so marked or so sudden, but in 1913 imports had reached a total of $1,813,000,000, or $18.03 per capita, as compared with $780,000,000, or $10.72 per capita, in 1896.

The reasons for the rapid increase in exports were many. The population of the country had now become large; railways, mines, factories, and farms had been developed and were in position to produce in greater quantities than ever before; free lands were gone and American capitalists had begun to pay more attention to trade and investment outside of the United States; large payments were due in interest and principal on the sums that had been invested previously by foreign capitalists in United States enterprises; emigrants, who had been coming to this country in ever increasing numbers, were now remitting large sums to relatives and friends in Europe; and American tourists were spending other large amounts in travel, pleasure, and business outside our own borders. All these factors created both the necessity for exports and the ability to export to meet the necessity. The export trade was the means by which the country could pay its obligations to foreign creditors for goods and services previously imported and at the same time command constantly increasing quantities of imported goods and services demanded by a people of high standards of living and expanding industrial life.

The war period, and early post-war period, saw a continued increase in United States exports. Even when due allowance is

made for the increase in prices during this period, the volume of exports mounted steadily. The increase was due not only to the demand for war materials by the Allies but to the fact that new markets were created for American goods in countries chiefly supplied before the war by Europe. Imports, on the other hand, increased more slowly since Europe, always the main source of our imports, was bending all her energies to producing for the war. The war period, therefore, built up an export trade balance of enormous magnitude, the excess of exports alone in 1919 being as great as the total trade, exports and imports, in 1913 (see Table 3). This excess export balance was much more than enough to pay for all visible and invisible charges, including interest owed by Americans to Europeans and to pay off the debts that had accumulated during the period of United States industrial and agricultural expansion. Why, then, was is possible to continue to export such enormous surpluses?

The large export shipments during and immediately following the war were made possible partly because of gold shipments to the United States—shipments so large that this country came to have from 45% to 50% of the world's gold supply by 1923—but chiefly because the United States Government and American merchants advanced funds, in the form of loans and credits, to European governments and to private businesses in all parts of the world. The war thus brought entirely new elements into United States foreign trade, elements that previously had not existed.

TABLE 3

POST-WAR TRADE: QUANTITY INDEX (THAT IS, INFLUENCE OF PRICE ELIMINATED)*

YEAR	INDEX OF QUANTITY		ACTUAL VALUE (*Millions of Dollars*)	
	Imports	Exports	Imports	Exports
1913	100	100	1,813	2,466
1919	125	142	3,904	7,920
1920	139	137	5,278	8,228
1921	120	120	2,509	4,485
1922	154	112	3,113	3,832
1923	161	115	3,792	4,167
1924	156	130	3,610	4,591
1925	166	137	4,228	4,909

* Index prepared by E. D. Durand, Bureau of Foreign and Domestic Commerce, 1926.

TABLE 4

APPROXIMATE DISTRIBUTION OF UNITED STATES FOREIGN INVESTMENTS AT END OF 1925*

(Millions of Dollars)

Region	Government Guaranteed Obligations	Industrial Securities and Direct Investments	Total
Europe	1,825	675	2,500
Latin America	910	3,300	4,210
Canada and Newfoundland	1,175	1,650	2,825
Asia, Australia, Africa, and rest of world	520	350	870
Total	4,430	5,975	10,405

* Estimates by Grosvenor M. Jones, Bureau of Foreign and Domestic Commerce, Washington, D. C., 1926. These figures do not include the obligations of foreign governments to the United States Government, amounting approximately to $10,000,000,000.

Because of the loans extended, largely in the form of exports of merchandise, the United States at the close of the war was no longer a debtor on international account, but a creditor. Instead of owing large sums to European creditors, America became the world's largest creditor. The creditor position of the United States is indicated by Tables 4 and 5.

In addition to the change in the international financial position of the United States that resulted from the war, this country has built up during and since the war a large merchant marine and is, therefore, less dependent on foreign ships for carrying its trade. It has also increased greatly the possibilities of rendering other services formerly supplied chiefly by Europeans, such as banking, credit, and insurance services. Because the United States can perform a greater proportion of such services for itself, and even sell them to foreigners, the need for exports of merchandise in payment of the "invisible" import items is relatively less than before the war.

What have been the consequences of these changed conditions on imports and exports? And what may be expected to be the ultimate effects? Following 1920 there was at first a large decline in the value of exports, but a much smaller decline in imports. A very considerable part of this decline was more apparent than real, being due to price deflation which accompanied the period of business depression that broke over the whole world in 1920.

TABLE 5

ESTIMATED BALANCE OF INTERNATIONAL PAYMENTS OF THE UNITED STATES, 1924*

(Millions of Dollars)

Items	Exports (credits)	Imports (debits)	Balance
CURRENT ITEMS			
Visible current items:			
Merchandise	4,934†	4,268‡	+666
Invisible current items:			
Interest on inter-Ally debt	160	....	+160
Private interest and dividends	520	165	+355
Ocean freights	75	83	−8
Governmental payments	....	5	−5
Services to tourists	100	660	−560
Charitable and missionary expenditures	....	50	−50
Immigrants' remittances	....	310	−310
Motion-picture royalties	75	....	+75
Total, invisible current items	930	1,273	−343
Total, current items other than gold and silver	5,864	5,541	+323
MOVEMENT OF CAPITAL			
New foreign loans, exclusive of refunding	....	920	−920
Sale and purchase of outstanding securities	411	90	+321
Foreign bonds paid off	140	....	+140
Principal of inter-Ally debt	27	....	+27
United States paper currency	....	62	−62
Total, capital items	578	1,072	−494
GOLD AND SILVER			
Gold	262	128	+134
Silver	99	65	+34
Total, gold and silver	361	193	+168
Total, all items	6,803	6,806	−3
Change in foreigners' bank deposits§	....	....	−61
Residual balance (representing errors and omissions)	....	....	−64

* From "The Balance of International Payments of the United States" by F. K. Ryan. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin No. 399*.

† Includes $25,000,000 for unrecorded parcel-post packages.

‡ Includes $40,000,000 for smuggled goods.

§ Decrease in foreigners' bank deposits in this country as reported by 186 banks.

Table 3 gives the post-war trade on the basis of an index of quantity, in which all years are computed at 1913 prices. As indicated by this table, following the decrease in imports in 1921 from the high period of 1920, imports have increased. In 1925 they were 66% greater in volume than in 1913 and materially larger than in 1920. Exports, on the other hand, continued to decline from the high point in 1920 until 1923. There was an increase in 1924 over 1923, and in 1925 exports were 37% greater than in 1913 and virtually the same as in 1920. That is, imports in the post-war years have continued to expand in quantity and are of

decidedly greater importance in our trade, both absolutely and relatively, than before the war. The export surplus consequently also has declined, although there was an increase in 1924 over 1923.

The export balance continues large at the present time (1925) chiefly for two reasons: First, loans and investments continue to be made by Americans in foreign countries; second, payments by foreign governments on United States Government loans are not yet being made in large amounts except on the part of Great Britain. Nevertheless, it must be only a question of time before the relation of exports to imports again changes. As a creditor nation, in the process of further lending, exports continue in excess of imports. With the payment of interest, dividends, and principal on these loans and investments an import excess must be expected. Continued lending and reinvestment of interest and dividends in foreign enterprises may postpone, but it cannot prevent, an ultimate overturning of the trade balance, if payments of interest, not to mention repayments of principal, are to be required.

Considerations other than those of interest payments would also further tend to favor the future expansion of imports in excess of exports. The re-creation of an American mercantile marine, the upbuilding of international banking and insurance facilities, the development of international trading houses, all these mean that the United States has less to pay and more to receive for such services—services for which before the war we were almost entirely dependent upon foreign countries. Furthermore, the restriction of immigration may be expected to lessen the amounts of immigrant remittances, and hence reduce the necessity of merchandise exports by that amount. This latter, however, may be offset by increased expenditures of American tourists.

Perhaps even more important than the above reasons for believing that our creditor position will result in an increase in imports, is the effect of international debt payments on prices in debtor and creditor countries, and the consequent effect of prices on international exchange of goods. Except under conditions of depreciating currencies, the payment of large sums by a debtor nation tends to result in a generally lower price level in that country, as compared with prices in the creditor country, for those goods produced within the country. This makes the debtor

country a particularly favorable one in which the creditor country may buy. At the same time, the price levels in the creditor country will be relatively high, thus discouraging exports. The creditor country's imports are, therefore, stimulated and its exports depressed, while the opposite condition develops in the debtor country.[3] If inter-allied debts and reparation payments are made, the United States as the chief creditor nation must ultimately receive an excess of imports.

The conclusion is inevitable that the import trade of the United States must become of increasing importance relative to our total trade. This does not imply that the export trade must decline. It does mean that imports must increase more rapidly than exports and ultimately surpass them in value in order not only that exports may be paid for, but that interest and profits on American investments in other countries may be made available in this country. Not only is the growth of imports inevitable, but it is desirable. It is one means by which the continued expansion of our export trade is made possible. Under existing conditions, unless imports increase, exports eventually must decline. There is not enough gold available in foreign countries to allow foreign bankers to make payments in that metal; payments can be made only in small part through services; loans made, as well as our exports, must be paid for mainly in goods, that is, in merchandise imports. Being a creditor nation is, of course, an indication of national economic strength and prosperity. It gives to a people a greater command of goods and services and hence makes possible a standard of living not otherwise attainable. The change to an import balance in our foreign trade is not likely to be sudden, but it will probably be gradually brought about as international debts are adjusted, as the debtor countries reestablish their economic life, and as the necessity for further loans by the United States to countries weakened by the war and by post-war confusion becomes less imperative. Investment of new capital and reinvestment of interest and dividends due us may retard the full effect of the creditor status on our trade; but a

[3] For fuller discussions of this topic, see: Angell, "The Payment of Reparations and Inter-Allied Debts," *Foreign Affairs*, October, 1925; Moulton and McGuire, *Germany's Capacity to Pay*; National Industrial Conference Board, *The Inter-Allied Debts and the United States*; Graham, "Germany's Capacity to Pay," *American Economic Review*, July, 1925; Gay, E. F., "War Loans or Subsidies," *Foreign Affairs*, April, 1926.

reduction of the "favorable" export balance may be looked for immediately and an actual overturn of the balance in a few years.

THE COMMODITY CHARACTER OF THE IMPORT TRADE

The commodity character of the import trade and the broad changes that have taken place in its composition are shown in Table 6 and in Figure 2. It is at once apparent that the relative importance of two of these great groups of commodities, "crude materials" and "manufactures," materially changed between 1850 and 1914. The foodstuffs group has fluctuated in importance but shows less regular and marked changes than the two other groups.

Crude materials were steadily increasing in importance up to the outbreak of the Great War, until in the five-year period ending with 1914 they constituted 34.4% of our total imports as compared with 32.2% in the first five years of the century and 22.2% in the early nineties. The percentage markedly increased during the abnormal period of the war as was inevitable when imports of manufactures from Europe were cut off and production of manufactures in the United States was stimulated. Since the war the raw material imports have come to occupy a slightly

TABLE 6

MERCHANDISE IMPORTS BY GREAT GROUPS OF COMMODITIES

Yearly Average	Crude Materials		Foodstuffs*		Manufactures*	
	Millions of Dollars	Percentage of Total	Millions of Dollars	Percentage of Total	Millions of Dollars	Percentage of Total
1850–54	16	6.8	52	22.3	162	70.4
1855–59	31	10.2	89	29.8	180	59.7
1860–64	37	13.4	86	30.5	154	55.4
1865–69	41	11.0	122	32.8	204	55.5
1870–74	76	13.7	187	33.8	285	51.0
1875–79	72	15.5	192	41.3	193	41.4
1880–84	126	18.4	231	33.8	316	46.1
1885–89	139	20.7	218	32.3	306	45.4
1890–94	176	22.2	290	36.4	323	40.6
1895–99	195	27.1	233	32.5	285	39.6
1900–04	296	32.2	234	25.4	383	41.8
1905–09	419	33.3	299	23.8	529	42.1
1910–14	580	34.4	398	23.5	696	41.3
1915–19	1023	40.7	667	26.5	808	32.1
1920	1752	32.2	1816	34.4	1679	31.8
1921	838	33.4	668	26.6	982	39.1
1922	1161	37.3	717	23.0	1216	39.1
1923	1386	36.5	893	23.6	1492	39.3
1924	1236	34.3	947	26.2	1405	39.0
1925	1721	40.7	928	21.9	1552	36.7

* The groups "crude foodstuffs" and "foodstuffs manufactured," as given in *Commerce and Navigation of the United States*, are here combined into one group; likewise the "semimanufactures" and "manufactures." See also Figure 2, page 23.

TABLE 7

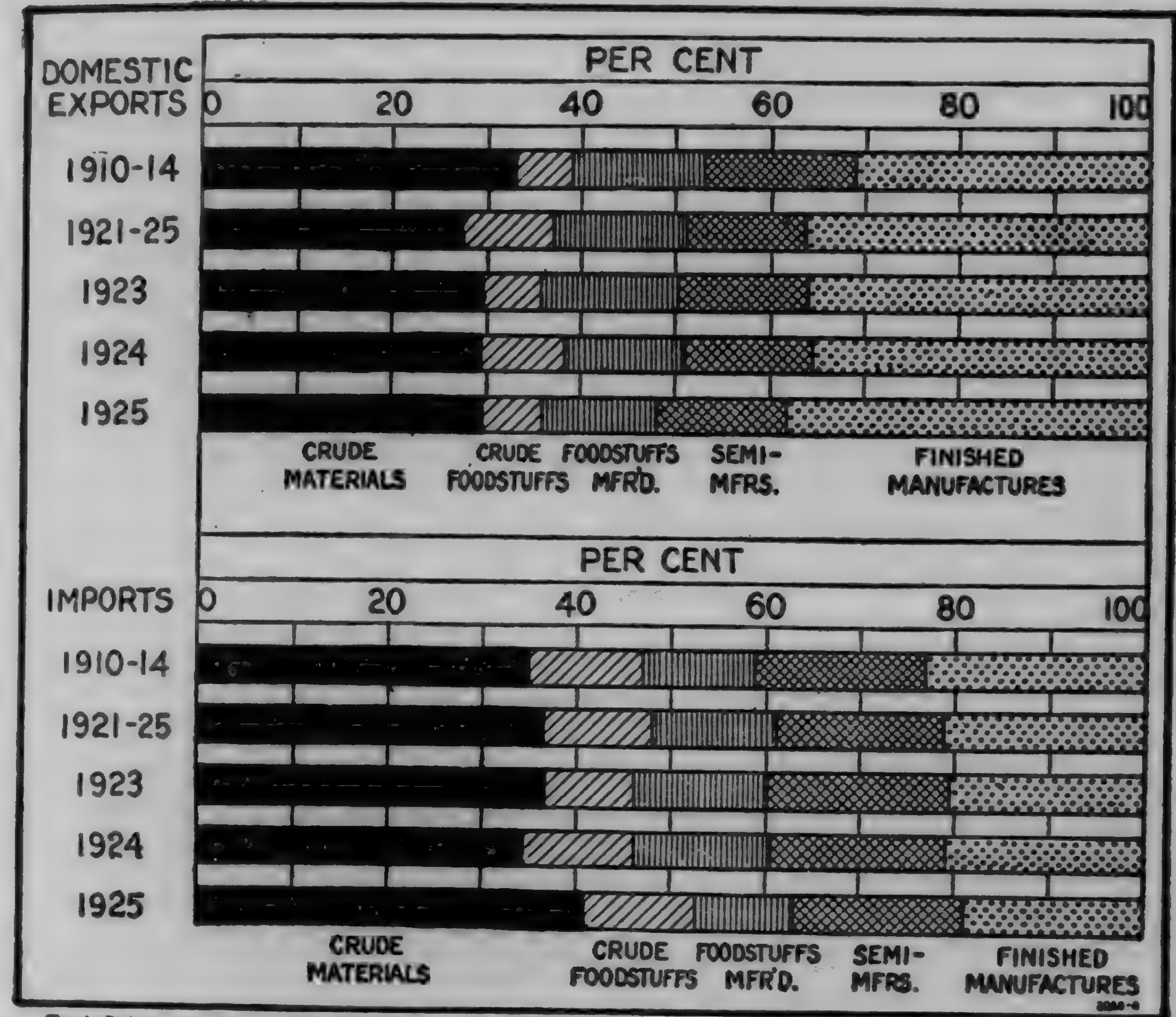
CHIEF IMPORTS IN 1925 INTO THE UNITED STATES*

	Rank	Commodity	Value	Percentage of Total Imports
	1	Crude Rubber and Latex	$429,705,000	10.2
	2	Raw Silk	396,286,000	9.4
	3	Coffee	286,212,000	6.8
	4	Cane Sugar	246,008,000	5.8
	5	Unmanufactured Wool	141,976,000	3.4
	6	Undressed and Dressed Furs	105,632,000	2.5
	7	Standard Newsprint Paper	103,717,000	2.5
	8	Raw Hides and Skins	96,746,000	2.3
	9	Tin in Bars, Blocks, Pigs, etc.	95,121,000	2.2
By Rosenthal	10	Burlaps	85,028,000	2.0
	11	Wood Pulp	81,834,000	1.9
	12	Crude Petroleum	75,407,000	1.8
	13	Unmanufactured Tobacco	71,479,000	1.7
	14	Diamonds	61,090,000	1.4
	15	Boards, Planks, Deals, etc.	56,812,000	1.3
Forget	16	Unmanufactured Cotton	52,775,000	1.2
	17	Nitrate of Soda	52,531,000	1.2
	18	Unrefined Copper	48,870,000	1.2
	19	Art Works	46,874,000	1.1
	20	Flaxseed	39,683,000	.9
	21	Cocoa, or Cacao, Beans	38,246,000	.9
	22	Tea	31,454,000	.7
	23	Vegetables	30,582,000	.7
	24	Fish	30,113,000	.7
	25	Bananas	29,693,000	.7

* Foreign Commerce Department, Chamber of Commerce of the United States of America.

higher relative position than before the war. Although in actual values crude materials are much greater than ever before, apparently the pre-war tendency of a slow and steady increase in the percentage importance of this group is being maintained (see Figure 2).

The manufactures group shows the opposite tendency, that is, a generally slow but constant decline in percentage importance during the last 75 years. Between 1900-04 and 1910-14 the percentage changed but slightly, from 41.8% to 41.3%. During the war and the first post-war years, however, manufactured imports amounted to only 32%, the lowest in the history of our trade. Since 1921 the group has again come to occupy a position somewhat lower than in 1910-1914, apparently continuing the pre-war tendency of slowly diminishing relative importance (see Figure 2).



Trade Information Bulletin No. 337, Bureau of Foreign and Domestic Commerce.

Figure 2: Percentage distribution of foreign trade of the United States by economic classes.

The foodstuffs group of imports, which increased in importance up to 1880 and then declined until the outbreak of the war, was abnormally stimulated by the war. Since 1921 it has assumed a position similar to, but apparently more important than, pre-war.

It is thus apparent that the import trade of the United States, as measured by these groups of commodities, has on the whole changed but little in character as a result of the war. Although it has greatly increased in volume, the same general tendencies seem to prevail in the composition; namely, an increasing importance of raw material imports and a slightly decreasing importance of manufactured products. This change is in accordance with what would be expected as population and industry in the United States grew and developed.

Let us now consider the characteristics of each of the great commodity groups. Table 8 shows the chief imports making

up the raw material group, the items given representing over 90% of the imports of raw materials in 1924. The most significant fact to be noted is the importance of textile raw materials which in 1924 accounted for 42% of all raw material imports. The rapid increase in the value of one raw textile fiber, raw silk, has been chiefly responsible for the increasing importance of raw material imports in recent years. Oil seeds, crude petroleum, and raw furs have attained large importance since the war. Rubber continued to hold a dominant place in spite of the low prices that maintained for this commodity for several years after the war. Hides and skins fell in post-war importance, from 18% of the total to 6%, partly as a result of lessened consumption due to high prices. For the most part the leading raw material imports are either non-competitive tropical products or products of relatively small importance in the export trade. Cotton imports are

TABLE 8

RAW MATERIAL IMPORTS: CHIEF COMMODITIES

Commodity	1910–1914		1924	
	Value (*Millions of Dollars*)	Percentage of Group	Value (*Millions of Dollars*)	Percentage of Group
Total of Group	580	100	1236	100
Textile fibers (total)	177	30.5	518	41.9
Silk—raw	77		328	
Wools	39		93	
Cotton	21		49	
Other	40		48	
Rubber	86	17.9	174	14.1
Hides and skins	105	18.1	75	6.1
Furs (raw)	15	2.6	80	6.5
Oil seeds	15	2.6	50	4.0
Flaxseed	12		30	
Copra	2		13	
Others	1		7	
Tobacco, manufactured	32	5.5	75	6.1
Petroleum, crude			74	6.0
Ores	30	5.2	52	4.2
Copper	11		18	
Iron	7		11	
Lead	3		13	
Tin				
Other	9		10	
Pulp wood	6	1.0	13	1.0
Paper stock	6	1.0	18	1.5
Coal	4	.7	3	
Cabinet woods	6	1.0	5	

not an exception, since the bulk of the cotton imported is long staple, chiefly Egyptian, cotton. Tobacco imports are special quality tobaccos from Cuba and the East Indies.

Food material imports are summarized in Table 9, which shows for 1924 over 95% of the imports of this group. Tropical products make up a very large proportion of imported foods. Sugar accounted for 38.5% in 1923, even more important than in pre-war years. Sugar, coffee, cocoa, and tea constituted 70% of all food imports in 1924, as compared to 60% in 1910. In spite of the growing importance of tropical food products, there has been a tendency for the increased import of competitive temperate zone farm products in recent years, such as dairy products of all kinds, egg products, grain and flour, fresh fruits, and meats. The tariff act of 1922 was aimed particularly at this tendency.

Imports of food products exceeded exports by over $19,000,000 in 1924. This reversed the usual large excess of food exports which averaged over $23,000,000 from 1910 to 1914, and $180,000,000 from 1905 to 1909. This situation is the result of the declining export trade in foodstuffs rather than a disproportionate increase in food imports. Foodstuff importations have kept pace with the increase in total imports, while food exports have increased less rapidly than all exports, or have actually declined. The United States is consuming a constantly larger proportion of its own food production.

Among the imports of manufactured products,[4] textiles are of outstanding prominence. As shown in Table 10, they comprised nearly one-quarter of all manufactured imports in 1924. And textile imports have been increasing more rapidly than the manufactures group as a whole. The increase has been greatest in jute and hard fiber textiles, and, since the war, in artificial silk. Textiles as here summarized include yarns, piece and knit goods,

[4] Manufactured products not only make the largest import group in value, but also the group that contains the largest number of separately listed commodities in the statistics of foreign trade compiled by the Bureau of Foreign and Domestic Commerce in Washington. The Manufactures Group, as made by the Bureau, contains a wide variety of commodities some of which, as coconut oil, could equally well have been grouped with foods, or raw materials, and others, like shellac, and nitrate of soda, with raw materials. Recent changes in the classification of commodities used in compiling foreign-trade statistics have made it particularly difficult to compare this group with pre-war years. Table 10, therefore, gives a summary of this group only for a recent year (1924). This may, however, be regarded as essentially the picture of the nature of manufactured imports since the war. The items listed are those whose value exceeded $10,000,000 in 1924 and constitute about 84% of the total of the group.

TABLE 9

FOODSTUFF IMPORTS: CHIEF COMMODITIES

Commodity	1910–1914		1924	
	Value	Percentage	Value	Percentage
Total of Group	398	100	946	100
Sugar	105	26.4	364	38.5
Coffee	101	25.4	249	26.3
Cocoa	16	4.0	29	3.1
Tea	17	4.3	27	2.8
Fruits—All	26	6.5	43	4.5
Bananas and other tropical fruits	20		27	
Other fresh fruits	3		2	
Dried fruits	3		14	
Butter and cheese	9	2.3	24	2.5
Fish			30	3.2
Grains	9	2.3	25	2.6
Nuts	13	3.3	29	3.1
Spices	7	1.8	16	1.7
Olive oil	6	1.5	13	1.4
Sausage casings	3	.7	13	1.4

and fabrics of all kinds, including clothing. It should be recalled that textile fibers are by far the most important raw-material import; and it is significant, also, that the largest single export from the United States is a textile fiber, raw cotton, and that textile manufactures are among our leading exports.

Wood and wood products, including paper, comprise the second most important manufactured commodity imported. This importation has very rapidly expanded in recent years as the forest resources of the country have declined. Newsprint paper is now the largest single manufactured import. Along with the import of paper the import of wood pulp has rapidly developed.

Third in importance are imports of metals—refined and unrefined copper; brass; tin in bars, blocks and pigs; pig iron and semifinished iron and steel; steel rails and structural steel; ferromanganese and other ferro-alloys; aluminum; zinc; antimony; and so forth. These are, for the most part, materials for further manufacture. It is significant that imports of these metals ready for consumption are relatively small. While the United States is a large producer of most of these metals, our large manufacturing industry requires much in addition. Since ores are

TABLE 10

IMPORTS OF MANUFACTURES: CHIEF COMMODITIES

(Millions of Dollars)

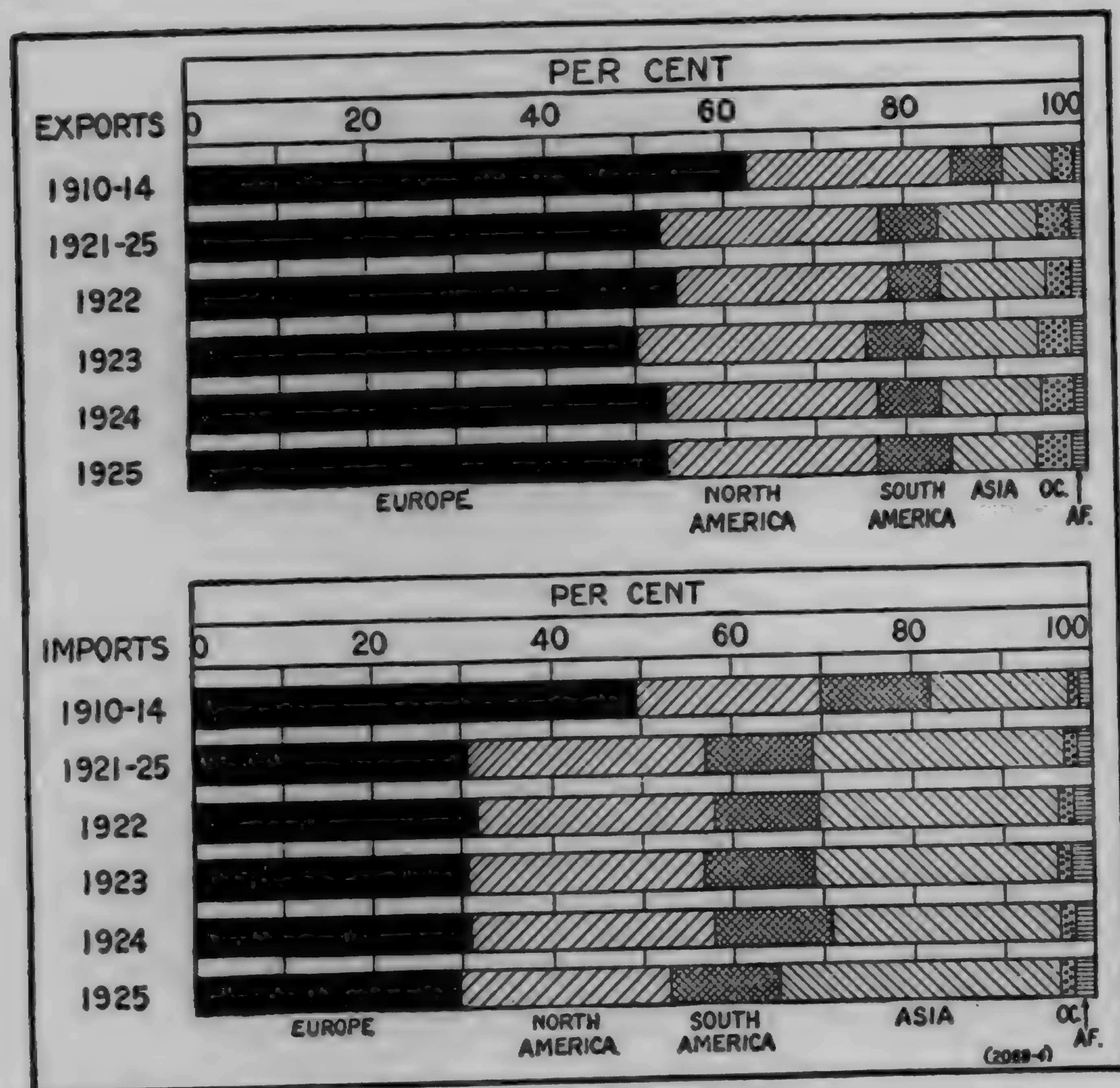
	1924			1924	
	Value	Percentage		Value	Percentage
Total	1404	100	Total	1404	100
Textiles	316	22.5	Vegetable oils	44	3.1
Jute	67		Wood oil	11	
Cotton	91		Coconut	17	
Wool	59		Palm	7	
Silk	38		Olive (inedible)	3	
Artificial silk	6		Linseed	1	
			Soya bean	1	
Flax, hemp, and ramie	55		Other	4	
Metals	177	12.6	Art works	32	2.3
Copper	78		Petroleum products	27	1.9
Brass	1		Articles returned	27	1.9
Tin	69				
Iron and stee	9		Iron and steel, and manufactures of	20	1.4
Ferro-alloys	6		Glass	19	1.3
Aluminum	7		Pottery	17	1.2
Others	7		Leather	17	1.2
Paper	118	8.4	Shellac	13	.9
Chemicals	102	7.3	Clocks and watches	13	.9
Nitrate soda	47		Machinery	11	.9
Creosote oil	13		Textile	5	
Other	42		Agricultural	2	
Lumber and timber	78	5.6	Other	4	
Wood pulp	76	5.4			
Precious stones, cut	61	4.3	Beads and bead ornaments	11	.9

bulky to import, much of metal imports are in the form of smelted, refined, and semifinished products rather than as crude ores.

Chemicals constitute another large item in the manufactures group. Chilian nitrate of soda, a basis for other industries, accounts for two-fifths of the classification. Chemical imports are of much less relative importance than before the war, reflecting the development of the American chemical industry. Vegetable oils and petroleum products are imports that have largely increased since the war. While the extent and variety of imports are very large, apparently the tendency is toward a greater proportion of those manufactures which are actually raw materials for further fabrication or for use in industry, rather than manufactures for immediate consumption.

THE GEOGRAPHICAL DISTRIBUTION OF THE IMPORT TRADE

Except for the period of the Great War, the chief source of United States imports has been Europe. Before the war approximately 50% of all imports was from that continent, although



Trade Information Bulletin No. 387, Bureau of Foreign and Domestic Commerce.

Figure 3: Percentage distribution of foreign trade, by continents.

the percentage had been slightly declining during the 20 years preceding 1915 (see Figure 3). Imports from Asia and Oceania, which had accounted for about 16% of the total pre-war import trade, had been slightly increasing before 1914. The trade with the other Grand Divisions had remained for many years essentially the same in percentage distribution, although the absolute increase had been large. During the war, Europe fell to second and even to third place as a source of supply of imports, but beginning with 1921 that continent has again regained first place. However, during the post-war period Europe has accounted for only slightly over 30% of the trade as compared with 50% before the war. Imports from the Far East, on the other hand, have increased to an average of 28.9% since 1920, as compared with 16% pre-war. Imports from North America, that is, from

Canada, Mexico, Central America, and the West Indies, have materially risen, both absolutely and relatively. South America has remained at the same percentage level as before the war.

A better picture of the sources of imports is given in Table 11 which shows the import trade by commercial regions[5] rather than by the Continental Grand Divisions and in Table 12, on page 31, which gives the twenty leading countries in the import trade. In the pre-war period (1910-1914) Northwestern and Central Europe accounted for 43% of United States imports and three countries in that region—the United Kingdom, Germany, and France—alone made up 35%. In 1925, which is typical of the post-war period, this region supplied only 24% of imports, and the three countries mentioned, only 18.2%. The reasons for the post-war decline are several. The first and most obvious reason is the failure of Europe to recover from the effects of the war and the economic instability of the post-war years. Germany's failure to supply the United States with imports is particularly conspicuous. Germany is the only country of importance that has furnished us less imports, even when measured in dollar values, than before the war. Another reason for the decline in imports from Europe is found in the increasing growth of raw-material imports into the United States and the falling importance of manufactured imports, as noted in the preceding section. Even if other conditions had remained the same, this factor would have meant a percentage decline in imports from Europe. During 1910-1914 Europe supplied 79.5% of finished manufactures and 64% of the semimanufactures imported; in 1923, 60.5% of finished goods and 41% of semimanufactures.[6]

Still another reason for Europe's relative decline in the import trade is the development of direct imports into the United States during and since the war. Many products formerly imported into this country through the entrepôt centers of Europe, particularly London, Amsterdam, and Hamburg, now come directly. Commodities like rubber, tin, and wool, which were

[5] From the point of view of trade the grand divisions or continents are purely artificial divisions. The divisions given in Table 11 are regions into which the world may be divided from the point of view of trade relationships. The divisions here given are modifications of those first made in 1918 by the Bureau of Planning and Statistics of the United States Shipping Board, and those used by the Bureau of Foreign and Domestic Commerce in the *Commerce Year-Book.*

[6] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin No. 322*, p. 26.

brought in large quantities to London for resale and were recorded in our statistics as imports from England, now appear in larger part as from the countries of original production. Vegetable oils, tea, coffee, spices, tin, and many other products are similarly affected. Hence, some of the increase in imports from non-European countries is more apparent than real. For example, in 1914, out of a total import of crude rubber amounting to 132 million pounds, 71 million pounds came from Europe; in 1924, out of 759 million pounds, 81 million pounds came from Europe. In the case of tin, 58 million pounds out of 100 million pounds imported came from Europe in 1914, while in 1923 only 26 million pounds out of 154 million pounds were from Europe. However, many commodities continue to come through the entrepôt ports. For example, Sumatra tobacco now comes to the United States through Holland as before the war, although during the war a large direct importation occurred. In fact, in many cases where the pre-war entrepôt trade was dis-

TABLE 11

IMPORT TRADE OF THE UNITED STATES BY COMMERCIAL REGIONS

Region	1910-14 (Average)		1924 (Average)		1925 (Average)	
	Millions of Dollars	Percentage of Total	Millions of Dollars	Percentage of Total	Millions of Dollars	Percentage of Total
Europe: Northern	743	44.0	948	26.3	1,062	25.1
Northwest and Central	724	42.9	924	25.6	1,035	24.5
Northeastern	19	1.1	24	.7	27	.6
Mediterranean	126	7.4	202	5.6	250	5.9
Southwest'n Europe	80	4.7	110	3.1	141	3.3
Balkans	14	.8	37	1.0	35	.8
West Asia	14	.8	22	.6	29	.7
North Africa	18	1.1	33	.9	45	1.1
Africa: Central and South	4	.3	40	1.1	47	1.1
Far East	262	15.5	958	26.5	1,368	32.3
Eastern Asia	125	7.4	477	13.2	575	13.6
Southern	120	7.1	432	11.9	715	16.9
Oceania	17	1.0	49	1.4	78	1.8
Northern North America	119	7.0	402	11.1	459	10.9
Latin America	435	25.8	1,059	29.4	1,045	24.7
East Coast South America	148	8.8	262	7.3	319	7.5
West Coast South America	36	2.1	128	3.6	115	2.7
Carribbean and Mexico	251	14.8	669	18.5	611	14.5

turbed by the war, the trade has again shown a tendency to seek the old channels. Entrepôt trade has gradually increased since 1920, although it is still below pre-war levels in relative magnitude. The advantages of world distributing and marketing centers are so strong in the case of many commodities, particularly those commodities that are not readily sold by grades or standards, and those produced in scattered localities and which require assembling, sorting, and grading in a central locality, that the indirect trade of this nature is likely to remain important. Tobacco, wool, and spices are illustrative of such commodities.

Imports from the countries surrounding the Mediterranean Sea account for only a small percentage of imports, 7.4% during 1910-14 and 5.9% in 1924, and most of this trade was from Spain and Italy. Many Mediterranean imports, such as dried and citrus fruits, are directly competitive with American prod-

TABLE 12

SOURCES OF IMPORTS INTO THE UNITED STATES 1925*

(Leading Countries)

Country and Bank	Value of Imports
1. Canada (10.8%)	$454,763,000
2. Great Britain (9.8%)	412,316,000
3. Japan (9.1%)	384,112,000
4. Straits Settlements (7.4%)	313,941,000
5. Cuba (6.2%)	261,673,000
6. Brazil (5.2%)	221,788,000
7. Mexico (4.2%)	178,835,000
8. China (4.0%)	169,611,000
9. Germany (3.9%)	164,252,000
10. France (3.7%)	157,432,000
11. British India (3.4%)	144,484,000
12. Philippine I. (2.6%)	144,484,000
13. Italy (2.4%)	102,205,000
14. Dutch E. Indies (2.3%)	95,828,000
15. Netherlands (2.2%)	92,591,000
16. Chile (2.1%)	88,978,000
17. Argentina (1.9%)	80,170,000
18. Belgium (1.6%)	68,982,000
19. Colombia (1.5%)	63,376,000
20. Australia (1.3%)	55,110,000
21. Ceylon (1.1%)	48,159,000
22. Egypt (1.0%)	41,045,000
23. Sweden (1.0%)	40,999,000
24. Switzerland (1.0%)	40,302,000
Total Imports	$4,227,995,000

* *Our World Trade,* United States Chamber of Commerce, 1925, p. 30.

ucts and have been adversely affected by high tariffs in the United States. Prohibition has also affected materially imports from the Western Mediterranean.

Far-Eastern imports have increased more rapidly than imports from any other trade region, particularly from Japan, India, and the East Indies. Many commodities enter into this increase, but raw silk imports from Japan, rubber and tea from the East Indies, jute and jute products from India, account for much of the gain. In 1923 the Far East supplied 50.6% of the total imports of raw materials, as compared with 25.9% in 1910-1914.[7] Two-thirds of the imports from the Far East are crude raw materials.

Imports from Canada have been very rapidly increasing in response to the growing demand in the United States for raw materials and foodstuffs and because of the nearness of Canada to our consuming markets. Our northern neighbor supplied over 11% of our imports in 1924 as compared to less than 7% in 1910-1914.

Latin America, including all of the Americas south of the Rio Grande and the Gulf of Mexico, was the source of nearly 25% of all imports in 1925. But it should be noted that a very large part of this trade was from the near-by countries bordering the Gulf and the Caribbean. Mexico and Cuba alone supplied the United States half of the Latin American imports, or 15% of all imports. Here, as in Canada, are to be noted the effects on our import trade of geographical proximity combined with the increasing demand in this country for foods and raw materials as industry expands and some of our own resources approach exhaustion. Sugar, tropical fruits, tobacco, and petroleum products account for much of the imports from Middle America. Foods—principally coffee and cocoa—and raw materials—hides and skins, flaxseed, wool, quebracho—account for the bulk of the East Coast South American trade; and minerals —nitrate of soda, iron ore, copper, tin—are the dominant imports from the West Coast. Fifty per cent of all crude foodstuffs imported into this country come from the continent of South America. The value of United States imports from Latin America is much in excess of the exports to Latin America. This region, therefore, is more important to the United States as a

[7] *Trade Information Bulletin No. 332*, p. 26.

source of supplies than as a market. This situation, however, may well be a potent factor in maintaining and upbuilding the export trade.

Tropical products form a very considerable, and apparently a growing, proportion of American imports. Just what percentage of imports are tropical cannot be determined, since many products are not imported directly, but come through the large entrepôt centers, such as Hongkong, London, Amsterdam, and Antwerp. Other products, for example tea and tobacco, are produced both in the tropics and elsewhere and it is impossible in all cases to segregate the one from the other in the import statistics. Minerals also come under this head. We may, however, determine from the import statistics with considerable accuracy direct importations from tropic regions. In 1913-1914, of our total imports, over 28% were from tropic lands, and in 1923 over 34%. This must not be taken, however, as certain evidence of an increase in tropic imports. The increase in direct importations which has taken place since 1914 has especially affected products from the tropics, which were accustomed to be reshipped in the European entrepôts. Furthermore, the temporary post-war decline in the percentage of imports from Europe raises the percentage of imports from other regions without indicating a permanent increase in the importance of those regions. A considerable proportion of the recent increase in tropic imports can be attributed to the increase in both the tonnage and the price of sugar. It is to be expected, however, that with the increasing importance of raw material and food imports, imports from the tropics may increase relatively rapidly, since most tropic products are not directly competitive with our own crops, and the tropics contain large areas open to exploitation for raw-material production. On the other hand, the problems connected with the development of the tropics to the point where the rate of growth of tropic production will outstrip the rate of growth of production in temperate zones are very serious and extremely difficult to solve. Furthermore, the low standards of living, the lack of energy and initiative, and the generally unprogressive character of the people, make the tropics a region of limited demand for world products. One of the strongest incentives to developing export surpluses, namely, the desire to buy goods in return, is thus absent from the hot lands. Nor is

there much promise that an energetic population of high living standards will soon develop in the tropic countries.

IMPORTS INTO THE UNITED STATES BY PORTS AND CUSTOMS DISTRICTS

Into what sections of the United States are imports received? To a much greater extent than in the case of exports, a few ports receive and distribute most of the imported merchandise. The New York Customs District, which is essentially the port of New York, has long dominated the import trade. While this dominance has slightly decreased in recent years with the expansion of trade, the New York district, nevertheless, continues to receive nearly 50% of all imports. (See Table 13, on page 36.) It is one of the characteristics of the import trade in all parts of the world that it tends to be concentrated into a relatively few centers, whereas exports seek a greater diversity of ports for shipment. Exporting is more likely to take place in those ports nearest the places of production. Imports, on the other hand, are more influenced by the drawing power of marketing centers. New York, being the great marketing center of the United States, naturally, therefore, attracts imports. In addition, New York is near the center of the great industrial region of Northeastern United States, where the consumption of imported goods is heaviest. Hence, not only do imports of finished manufactured products and foodstuffs reach New York, but also raw materials and manufactured products for further use in manufacturing make largest use of this port of entry.[8]

The importance of New York as an import center is even greater than the statistics indicate, since a considerable part of the imports attributed to the interior districts and to the northern border districts actually come via New York, and a large proportion of the entries at northern border cities are destined for New York. The official government statistics for imports are for customs entries; that is, they are credited to that customs district in which the goods pass through the hands of the customs officials, not to the port or district through which the goods actually physically enter the country. Merchandise technically "entered" in interior cities, or overseas imports entered in cities not seaports, are necessarily transhipped from some border city to the port of customs entry. A very large share of such transhipment is from New York. Furthermore, a considerable part of the goods entered through northern border cities, particularly the St. Lawrence district, are goods on their way to New York. Much of the large value of imports via the northern border cities is raw silk shipped overland from Pacific ports on Canadian railways and crossing the boundary at Ogdensburg and other cities on its way to the silk marketing and warehousing center in New York. Raw silk is the largest single import in value that comes to the United States, constituting from 9% to 11% of all imports by value. Being of very high value in comparison to its bulk, it is transhipped at Pacific ports, both American and Canadian, for express rail transportation across the continent to New York. Hence, most of the silk technically

[8] The advantages of the Port of New York are thus stated by R. L. McKellor, foreign freight traffic manager of the Southern Railway system, as quoted in *Export Trade and Finance*, March 1, 1924, p. 18:

1. The influence that cargo in volume has upon the establishment and maintenance of adequate steamship service, it being axiomatic that volume begets volume.
2. Frequency and regularity of sailings; superior and faster service—freight and passenger and joint passenger and cargo.
3. The wide range of foreign ports served by regular steamship service.
4. Superior banking facilities for financing exports and imports.
5. The shorter ocean distance to Europe than from southern ports.
6. The saving in interest charges by using the shorter and faster voyages from New York as compared with the longer and slower voyages from southern ports.
7. The location of headquarters for all the leading steamship lines, including those serving outports. *(Footnote continued on page 35)*

(Footnote continued from page 34)

8. The location of export and import commission houses.
9. The location of commercial representatives of foreign countries engaged in export and import trade.
10. The location of export and import offices of shippers, carriers (both rail and ocean) and foreign buyers, thus affording a meeting place for all of these foreign-trade interests.
11. The volume of exports produced locally in the New York metropolitan districts.
12. The volume of exports moving locally into New York for storage, rehandling and sale by export commission houses.
13. The volume of mixed-car movement of less-than-carload commodities on basis of carload rates.
14. The volume of imports consumed locally in the New York metropolitan district.
15. Advantageous marine insurance rates and facilities.
16. The availability of ocean rates on distress room.
17. The strength of east-and-west lines in controlling export freight for their long haul from highly productive territory.
18. The use of long established trade routes and port arrangements incident thereto which, as a whole, makes the route through New York the line of least resistance.

TABLE 13

IMPORTS BY PRINCIPAL CUSTOMS DISTRICTS*

Customs Districts and Groups of Districts	1914†		1924‡	
	Millions of Dollars	Percentage	Millions of Dollars	Percentage
Total Imports	1,894	100	3,610	100
Atlantic Coast	1,375	72.7	2,358	65.3
New York District	1,040	54.9	1,695	47.0
Massachusetts	160		254	7.0
Maine and New Hampshire			27	.7
Philadelphia	96		203	5.6
Maryland	34		100	2.8
Other Atlantic			79	2.2
Gulf Coast	120	6.4	282	7.8
New Orleans	89		206	5.1
Galveston	12		41	1.1
Other Gulf			35	1.0
Mexican Border	33	1.7	20	.6
Northern Border	205	10.8	442	12.2
St. Lawrence			130	3.6
Michigan	26		82	2.3
Buffalo	30		72	2.0
Chicago	39		46	1.3
Vermont			41	1.1
Other Northern			71	1.9
Pacific Coast	138	7.2	477	13.2
Washington	55		270	7.5
San Francisco	67		146	4.0
Los Angeles			41	1.1
Other Pacific			20	.6
Interior	23	1.2	31	.9
St. Louis	5		11	
Pittsburgh	4		9	
Other Interior			11	

* The administration districts established by the United States Customs service do not correspond with the ports, although in nearly every case one large port dominates the district. In addition to the Port of New York, the New York district includes Newark and Perth Amboy, New Jersey, and Albany. The New Jersey ports are, of course, commercially a part of the port of New York and the foreign trade of Albany is insignificant.

The Massachusetts district includes New Bedford, Fall River, Gloucester, and all other Massachusetts ports in addition to Boston. Philadelphia includes Camden, New Jersey, Chester, Pennsylvania, and Wilmington, Delaware—all making one commercial port. The Maryland district is essentially Baltimore. The Washington district, in addition to Seattle, includes Tacoma. Los Angeles includes San Diego. The Michigan district contains a long list of border cities, but is chiefly Detroit. The St. Lawrence district comprises all the border cities of Northern New York State, the chief being Ogdensburg. St. Louis includes St. Louis, East St. Louis, Kansas City, and St. Joseph. For a list of ports of entry for each customs district, see *Foreign Commerce and Navigation of the United States*, published by the Department of Commerce.

† Fiscal year.

‡ Calendar year.

entered at Seattle and San Francisco, as well as at Canadian border districts, is little more than transhipment trade destined for the actual silk-importing center of the country in New York City and its vicinity, where nearly all raw silk is marketed and manufactured. Raw silk represented 53.9% of all imports into the Washington district (Seattle) in 1914, 37.1% of the imports into San Francisco, and 54.5% of the imports across the St. Lawrence border. Silk imports into the United States by customs districts in 1924 were as follows:

	1924
Total silk imports	$327,582,000
Washington District	206,930,000
San Francisco District	39,159,000
St. Lawrence District	60,744,000
Vermont District	766,000
Dakota District	6,380,000
New York District	11,081,000

Approximately two-thirds of all imports are entered through Atlantic Coast ports. Including Gulf ports, northern border ports, and interior districts, it is probable that between 85% and 90% of all imports enter directly the eastern half of the United States. In addition, a very considerable proportion of Pacific Coast imports, as we have seen, are for immediate shipment to the eastern seaboard. Seattle, which was second to New York in the value of imports in 1924, owes the rapid increase primarily to raw silk, a commodity of very high value but of relatively small bulk. Large population, extensive industrial development, organized marketing centers, and accessibility to the chief sources of our import trade in Europe, Middle America, and Canada account for the continued dominance of Atlantic and Gulf cities as import ports. With the improvement of port and marketing facilities in the South Atlantic and Gulf states, and with the increase of population and industry in the South and Far West, it is to be expected that New York's percentage of imports will decline. That it will long continue, however, to dominate the import trade of the country seems likely.

RE-EXPORT AND TRANSHIPMENT TRADE

Distribution of imported goods in countries outside of the United States gives rise to the re-export trade and transhipment

trade. The re-export trade of the United States is insignificant, although it increased during the war and is more important today than in pre-war times (see Table 14). The development of a re-export trade of any magnitude presupposes the building up of international market centers. Such markets must not only possess geographical advantages for the collection and distribution of goods, but they must also develop the necessary organization for international trading, including organized markets, international merchant houses, financial and transportation facilities, and the other advantages that will attract buyers and sellers from other countries. Re-export trade, or entrepôt trade, is to be distinguished from transhipment trade.

Transhipment trade consists of those goods which enter United States ports for forwarding to another country. The goods have been bought previously and shipped directly to the foreign consignee, and in the process of shipment either enter an American port for transfer from one vessel to another, or for transfer to bonded railway cars for immediate shipment across the country to foreign destination, usually in Canada or Mexico. Such goods are not "entered" through the custom-house. They cannot be changed in any way by repacking, grading, or sorting. They are not included among the actual exports and imports of the United States. Transhipment goods are one measure of the amount of goods handled in American ports in international business and thus are one indication of the fact that the transportation and port facilities of the country are being used in the foreign trade of another country. Merchants, commission houses, and brokers all may profit by this kind of trade.

TABLE 14

RE-EXPORTS, IN-TRANSIT, AND TRANSHIPMENT TRADE OF THE UNITED STATES

Year	Exports of Foreign Merchandise	In-Transit and Transhipment Trade	Total
1914	$ 34,895,000	$198,303,000	$233,198,000
1919	170,610,000	259,149,000	429,759,000
1920	147,535,000	266,207,000	413,742,000
1921	106,103,000	238,605,000	344,708,000
1922	66,687,000	276,325,000	343,012,000
1923	76,778,000	360,354,000	437,149,000
1924	93,335,000	307,197,000	400,532,000
1925	91,125,000		

The fact that transhipment facilities are available to a merchant is an aid in his solicitation of business in other countries. In the United States most of the imports for transhipment are from Canada and Mexico for reshipment, or from other countries for Canada and Mexico. There is considerable transhipment also in the trade of Cuba, the West Indies, and Caribbean countries and some transhipments in Far-Eastern business both by steamship and by rail across the continent. For example, high-valued products, like silk and tea from the Far East, may be entered at Pacific ports for reshipment from Atlantic ports to Europe after transportation in bond across the continent.

The re-export trade, as distinguished from shipment trade, is a direct indication of the amount of international collection and distribution of products the merchants of a country are doing. The re-export trade involves the actual importation of goods by a merchant for resale. It involves actual "entry" of the goods through the custom-house and their reshipment out. This may not involve actual payment of duties since goods may be warehoused in United States Government bonded warehouses if goods are dutiable and re-exported without payment of duties (see Chapter VIII).

Importation for re-exportation by American import merchants is relatively small, except for a few items and those mostly articles on the free list. In the sense that London, Amsterdam, and Hamburg are international marketing centers, New York, although the largest world port, is relatively insignificant. Few merchants or import houses are organized to develop this type of trade. Largely as a result of the readjustments brought about by the war, New York became a large entrepôt market for cocoa and for coffee. The re-export trade in these products, however, while still important, has declined since 1920. New York is today the largest cocoa market and the largest coffee market in the world, but its status results more from the enormous size of the domestic market than from the fact that it is a distributing market for other countries. For Mexico, the Caribbean countries, the West Coast of South America, and the Far East, American ports are well situated to handle the redistribution of products. However, the products of these countries not used in

the United States find their market in Europe, and direct connections with Europe—transportation, financial, and marketing—are already well established.

For redistributing European manufactured goods from United States markets to other foreign countries, the same situation exists as in handling imports for distribution to Europe. To these difficulties, however, must be added the present handicaps of re-exporting dutiable goods since most European imports are dutiable. Furthermore, as a result of the rapid development of transportation and port facilities in recent years, the tendency is toward direct distribution of trade rather than indirectly through entrepôts. For many products, however, indirect distribution is advantageous, and re-export and transhipment trade through United States ports is likely to increase, particularly as better port and marketing facilities are created, and as the regulations governing bonded warehousing are made more liberal. The complexity of bonded warehouse regulations as they affect the necessary preparation of goods for remarketing, at present, places a handicap upon the trade, and the provisions for obtaining tariff drawbacks are cumbersome (see Chapter VIII). There are no free zones or ports in the United States and under present laws they could not be established. On the other hand, buyers from Latin America and other markets have been coming to the United States in increasing numbers, indicating that it may be possible to develop this type of trade to a greater degree, provided existing regulations are simplified and better shipping and marketing facilities made available.

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III

THE ORGANIZATION AND FUNCTIONS OF IMPORT HOUSES

THE following processes may be involved in securing and distributing imported merchandise:

1. Purchase of goods from foreign producer or merchant;
2. Assembly of goods in foreign market or shipping centers;
3. Grading, sorting, and warehousing in foreign market;
4. Arranging for transportation and insurance;
5. Receiving and entering the goods through the custom-houses in the United States;
6. Drayage and warehousing of the goods at the ports of entry;
7. Cleaning, grading, sorting, repacking, and so forth, for redistribution;
8. Resale of the imported goods to domestic distributors or consumers, or to foreign buyers;
9. Forwarding goods to final destinations;
10. Making financial arrangements in connection with payments, collections, and credits.

While this list is not exhaustive, it includes the chief functions that need to be performed in the process of placing foreign-produced goods in the possession of the ultimate user in the United States. Not all these steps are necessary for every importation and only one or a few of these functions may be performed by a single import house. A highly organized firm, however, may undertake all these processes and may go even further, to the extent that the actual production of the goods may be supervised in the foreign country.

Imported goods may be purchased directly by the consumer in the foreign markets, or they may be purchased indirectly through commission men, brokers, local agents for foreign producers or merchants, or merchants who are organized especially as importing middlemen. This is, of course, similar to the direct and indirect methods of purchasing that may be employed in domestic buying, and is analogous to direct and indirect methods of exporting.

The consumer who imports directly may perform all the technical functions required in bringing goods into the country in his own organization, or he may intrust one or more of these tasks to specialized middlemen even when the purchasing is done directly. For example, the details of entering goods and clearing them through the custom-house may be given to a custom-house broker, or the forwarding of the goods from seaport to the interior may be performed by a freight forwarder, although the consumer has accomplished his own buying and the goods are shipped from the foreign country to him directly. These agencies relieve the importing consumer of such highly technical details as those connected with custom-house and tariff regulations and railway and ocean transportation.

Those merchants, commission houses and brokers who are organized especially to purchase and to import foreign goods for the account of others, or for resale to consumers or domestic merchants, or who specialize in the technical services of importing, are the professional importers. They are the importing middlemen, engaged in performing importing services for others. If consumers and domestic merchants choose not to employ the importers but to go directly to the foreign sellers for their goods, they may establish in their own organization facilities for foreign buying and for importing directly. Direct importing consists in buying from the foreign seller, without the interposition of merchants in the buyer's country. The direct importer may employ specialists for performing some of the services involved, such as the custom-house broker, or he may perfom all of the services for himself. Direct importing does not imply that the importer deals directly with the foreign producer. He may buy in the foreign market from a producer, a local merchant, an international merchant, or a broker. Direct importing eliminates certain middlemen in the buyer's country only.

Whether a purchaser of foreign goods imports directly or employs the services of importing middlemen is determined by many factors, including the experience of the firm, the nature of the goods imported, the organization and custom of the trade, the size of the imports, and the financial strength of the firm. These factors will be discussed in a following chapter. This chapter is concerned with the problems connected with the organization, functions, and management of the importing houses

and the various other middlemen who perform specialized services connected with the purchasing, entering, and transporting of imported goods. The organization and merits of direct importing will be considered in the following chapter.

Business organizations formed for the purpose of importing or for performing some or all of the technical services required in importing may be classified as follows:

IMPORT ORGANIZATIONS

I. Import merchants
   a) 1. General, 2. Specialized — or, b) 1. Merchant wholesalers, 2. "To order" merchants

II. Import commission houses
   1. On order of buyer
   2. On offer of seller
   3. On consignment from foreign seller

III. Import brokers and import purchasing agents

IV. Local selling branch of foreign producer or merchant

V. Auxiliary importing agencies
   1. Custom-house broker
   2. Drawback specialist
   3. Warehouse and drayage companies
   4. Public weighers
   5. Sampling companies
   6. Freight forwarders
   7. Ship and freight brokers
   8. Customs attorneys and customs advisors
   9. Insurance brokers
   10. Banks

It must be understood that the above classification is a classification by function. A single organization may include several of the agencies mentioned. For example, the import merchant may also do a commission business, and the custom-house broker is generally also a freight forwarder. Furthermore, firms performing the functions indicated may do a business other than importing. For example, import merchants are often also export merchants; and brokers handling imported products also do a brokerage business in domestic products. Importers doing a general wholesale or jobbing business may also sell at retail. All these agencies, however, are middlemen agencies, prepared to perform all or part of the services required in purchasing and bringing

into the country foreign products for use of the ultimate consumer or for further distribution.

THE IMPORT MERCHANT

As the name implies, the import merchant buys products in foreign countries and imports them on his own account for resale to purchasers in the domestic market. Import merchants may be classified in two different ways. In the one classification there are those merchants who do a general import business, bringing in all types of products from a wide range of markets, and those who specialize in certain products or groups of related products. The second method of classification relates to method. One type of merchant buys only upon order; another imports on his own account for resale.

All degrees of specialization may exist both as to commodities handled and as to markets served. The number of firms doing a strictly general import merchandising business is small. Most of the merchants doing a general import business are also commission houses, and many of them also do an export merchant and commission house business as well as an import business. Many of the oldest and best-known foreign-trade houses in the United States are combination import and export houses and do both a merchant business and a commission business. The tendency, however, is toward greater specialization in importing. Even in the case of the largest general importers, special attention is likely to be given to certain products and the firm's organization and reputation as an importer is built around these special products.

The general import merchant must have at his disposal abundant working capital. This is particularly necessary if he carries stocks rather than imports only upon order. The merchant who is established in the producing country must be prepared to do a greater or less amount of financing of the foreign producers and collecting merchants. Advances of capital in the form of credits or supplies are especially necessary in the less-developed sections of the world, where one or two seasonal crops are usually the chief dependence of the people, and financial aid is therefore frequently imperative for both the producer, who requires supplies in advance, and the local merchants who help carry the producers

through to harvest times. Rates of interest exacted by native bankers are likely to be excessive in such countries, so that the merchant who would obtain products on the best terms frequently needs to help carry the native merchant or producer. Frequently, also, the importer finds it to his advantage to provide the necessary facilities for storing, sorting, packing, and otherwise preparing the products to be imported. Some of the larger merchants also do their own transportation. Practically all the general import merchants act as their own freight and ship brokers; a few own and operate tramp steamers or even steamship lines that have been developed primarily for their own service, although they may act also as common carriers.

Most of the specialized import merchants are strictly importers and jobbers, not attempting any exporting. They may handle both imported and domestic products, or they may confine their business strictly to importing. For example, a cotton merchant may specialize exclusively in importing Egyptian cotton. Some domestic cotton merchants, however, may import Egyptian cotton, in which case the import part of their business is likely to be a specialized department. Some may handle a single line of products, such as tobacco or rubber; others may import a group of related products, such as, for instance, spices, coffee, and tea. The importer of special products frequently also must be organized to prepare for resale the materials imported. Sorting, grading, cleaning, mixing, and blending are required of many products, especially raw materials and the so-called "colonial products," such as spices, tea, gums, drugs, and so forth. The importer, therefore, may be, to a greater or less extent, also a manufacturer. The specialized importer also has an elaborate selling organization in his own country and may deal with wholesalers and retailers, as well as with manufacturers.

Specialization in importing is applied to both staple raw materials and to manufactured products. The purchase of goods, whether raw materials or fabricated products, usually requires the highest technical knowledge of the product on the part of the purchaser, wide acquaintance with foreign-market conditions, a full understanding of domestic demands, and great skill in taking advantage of existing market conditions. Even in the case of highly standardized materials, the purchaser must be able correctly to judge of quality and to estimate the market. The

purchaser, even more than the seller, must be a specialist. For these reasons, importing, like purchasing in general, is organized on highly specialized lines, with a tendency toward increased specialization. This is indicated by the present degree of specialization. Among raw materials, the textile fibers—cotton, wool, silk, flax, hemp, and so forth—are, to a large degree, imported by firms who specialize in each product. Hides and skins, furs, rubber, bristles, wood, and lumber are largely imported by specialized importers. Among food products are the importers of cocoa, coffee, spices, sugar, vegetable oils, nuts, grapes, and so on. Specialization is carried to the point where only certain grades or types of commodity are handled by one importer. For instance, one wool merchant will handle only grades of wool for woolen mills, while another will specialize in worsted types of wool. Among manufactured goods there are special importers of tool steel, cutlery, chinaware, cotton piece goods, woolen goods, laces, toys, women's wear, and so forth. Even in the case of the general importer, there is likely to be a departmental organization, according to commodities, with specialists in charge.

Import merchants may import only upon orders received from domestic buyers, or they may import for stock and redistribute as wholesale merchants or jobbers in this country. A merchant doing only a "to order" business is sometimes said to be a "c.i.f. importer." He quotes c.i.f.[1] prices to the prospective buyer on the basis of his knowledge of the market, and aims to make his profit by importing the goods at a c.i.f. cost to himself less than the quoted price. His profit on the transaction may be a result of three factors: (*a*) ability to buy advantageously as a result of his organization and experience; (*b*) ability to secure low costs in transportation; (*c*) profits on exchange. This type of importing involves less risk, since the goods are sold previous to importing, and it requires less capital.

The import merchant who acts as a jobber or wholesale merchant buys on his own account, stocks or warehouses the goods, and resells to domestic purchasers, either small wholesalers, retailers, or consumers. A merchant of this type assumes the whole merchandising risk. By carrying goods in stock and thus being able to give immediate deliveries and to offer the purchaser opportunity to inspect merchandise before purchase, he can give

[1] "Cost, insurance, freight." See page 126.

superior services to a buyer—services for which he can command prices commensurate with the advantages given. A merchant of this type requires large capital. He also bears large risks. He carries not only ordinary risks of the domestic wholesaler but risks connected with exchange fluctuations, tariff changes, and risks growing out of the longer intervals involved between purchase and resale in the case of goods imported from distant centers.

also market fluctuations

An import merchant may act as the exclusive selling agent of a foreign manufacturer or merchant, having exclusive selling rights for certain sections of the United States or for all the United States or even for all of North America. He continues to act as a merchant, but exclusively handles certain products of the foreign exporter for the specified territory. Several of the large potteries in France, England, and Germany, for example, sell all their products, or certain of their exclusive patterns, in this way. Swedish steel may be sold in the same way; or Spanish olive oil; or German cutlery; or Manila hemp. Frequently, the American house which acts as agent may be financially interested in the foreign producer, or the foreign manufacturer in the American selling house. All degrees of closeness of relationship between the foreign seller and the importer may exist from those of mere contractual agreement to practical identity of the two. The foreign exporter may be in reality a separately incorporated branch of the American importing house, or vice versa.

THE IMPORT COMMISSION HOUSE

Although the term "export and import commission house" is frequently used to describe many import and export organizations in the United States, only a small amount of goods are imported on commission, that is, for a commission paid by the purchaser. Even when "commissioned" to buy foreign goods by a merchant or manufacturer the import merchant buys on his own account and resells, as described in the preceding section. The importer may buy only upon order, but he assumes all responsibility, giving a definite quotation and relying for his profit upon his ability to buy and deliver the goods on terms that will yield him more than a commission usually would yield. The goods are imported in the name of the commission house and delivered to the buyer.

But if the import commission house does not commonly buy on a commission basis, it may frequently sell on commission for the foreign producer or exporter. This results from the practice of consignment in the import trade. When the import commission house has no overseas buying organization, it may receive, on consignment, products from the foreign seller, which it is asked to sell at market prices or at certain stipulated prices as a broker. Since most of the regular export and import commission houses have their own branches abroad, consignments are not frequently received by them. There are always, however, frequent demands from foreign producers and merchants upon commission houses in well-organized markets like the United States to take consignments. The import department of a commission house functions largely as a merchant organization, buying usually upon order, but frequently also on its own account for resale in the domestic market.

IMPORT BROKERS

There are a group of business organizations in the import trade which are not, in the strict sense of the word, importers, but they perform special services for those who import or consume imported products. Such is the broker. A broker is one who acts for another. He is an intermediary who brings together the buyer and the seller. He sometimes may act for the seller; at other times for the buyer. The seller may have for sale either goods or services such as transportation and insurance. The broker may be a broker in merchandise, in transportation, in customs services. The import merchandise broker buys and sells foreign merchandise, not in his own name, but for the account of another. He is an agent either for the seller or for the buyer in the international market. The buyer and seller having been brought together, the contract is arranged between the two, and the importer usually brings in the goods in his own name and arranges for their payment directly with the seller.

CONSIGNMENTS

Because of the importance of the consignment business in the import trade, the merchandise broker plays an important part. Many goods are shipped from producing lands to highly organ-

ized markets, such as the United States and Western Europe, for sale in those markets. Such shipments are *consigned* to a representative of the shipper with instructions for their sale. The goods remain the property of the consignor until sold, and the proceeds of the sale, less certain fees and a brokerage, are remitted to the foreign shipper. The reasons for the much greater prevalence of consignments in the import trade than in the export trade may be enumerated as follows: (1) The overseas exporter, who has no branch office in this country nor regular customers who buy his goods, may wish to consign his goods to the American market whenever he thinks the market favorable, even if he has no direct representation. (2) Some commodities, such as furs, have their market prices determined only at periodic sales, such as auctions. Hence, the goods must be sent on consignment to some agent in the market for sale. (3) The overseas exporter may wish to send his goods to a market to try out the market, or to take advantage of a favorable market, even when he has made no definite sale in advance. (4) Some goods cannot be held in the producing country without danger of deterioration. They must be shipped at once. For example, cocoa beans, for climatic reasons, are consigned by merchants in tropical producing areas to avoid storage in their own climate. (5) In highly organized industrial countries there is ordinarily little risk in consignment shipments, for there is likely to be a wide opportunity for disposing of goods since demand for staple products is likely to be steady, and since there is a high average of responsibility and reliability among importers in old, well-established markets. (6) Many importers in the older industrial countries have made advances in money or credits to the foreign producer or exporter, in return for which goods are consigned to the importer. This is frequently done by the import commission houses, one of whose functions is the financing of the overseas exporter. The import commission houses, therefore, frequently act as brokers for foreign sellers.

One of the characteristics of the great trading centers of Europe —London in particular—is the amount of goods, principally raw materials and colonial produce, consigned to dealers by producers from all parts of the world. In London, buyers are sure to be found for almost every conceivable product, so that goods received on consignment can readily be disposed of. Furthermore, in London, financing of such consignments can readily be brought about, for the reason that there are bankers who are in position to finance all types of goods from all parts of the world. In New York, or other American import ports, sales of consigned goods may not be made so readily.

In the case of consignments the consignor may ask for payment of from 70% to 90% of the invoice value of the goods, the balance, less commission, to be remitted after final sales. The consignor may state a definite price at which the goods are to be sold, or he may indicate they are to be sold at market prices, or prices may be left to the judgment of the consignee—the latter method being used in the case of fabricated goods in particular. If the consigned goods are staple, if the demand for them is active and prices firm and on the upswing, the importer may readily dispose of the goods. If, however, the goods are novel or exceptional, or if the market is weak and prices are tending downward, the goods may move slowly and the importer's warehouse may become clogged with unsalable goods. Furthermore, if advances have been made against the consignment price, depreciation or exchange variations may bring the importer financial risks. In some commodities consignments are common and customary. In other trades they are unusual, perhaps asked for only in dull periods or under peculiar circumstances.[2] In handling consignments, a broker is representing the foreign sellers. He is supposed to be primarily concerned with the seller's interests, since the seller pays the commission.

For many materials the import broker performs a very necessary function for the buyer. The import broker is especially important when a high degree of technical knowledge of the commodity is required, when the commodities are collected from a wide range of sources, and when the buyer and seller are widely separated. Brokers being commodity experts, their services are of value to both buyer and seller because of their ability to pass on quality. The broker, by keeping in touch with many markets and with many importers and consumers at home and exporters abroad, performs a real service to the buyer by enabling him to get in touch with the exact quality of material needed and with the source that can supply it.

[2] See Wolfe, *Theory and Practice of International Commerce*, pp. 143-145.

A broker in imported merchandise may establish contacts with foreign exporters, or he may have relations only with the importers in his own country. The larger and better-organized brokers will keep in touch with all sources, but many brokers confine their activities to contacts in one market. It is possible for any one who has a personal following, and is an expert in a commodity and in methods of marketing it, to establish himself as a broker even if he has little or no capital. Obtaining samples and quotations from importers, he has but to find purchasers. In every commodity market there are likely to be many such attempting to gain a foothold, some of them short lived, but all competing for business. The bulk of the brokerage business in any market, however, is done by a relatively few well-established and highly expert and reliable firms which have built up a reputation, established strong contacts with both buyers and sellers, and perform services of the highest order for their clients.

An illustration of the above is the wool broker. Because wool is a commodity requiring highly expert knowledge, much of the wool trade is handled through brokers. A wool broker may represent either the buyer or the seller. He may represent foreign merchants, or foreign wool brokers, or he may sell only for American importers. He may handle only foreign wools, or both foreign and domestic. He may sell to any and all purchasers he can find or he may confine himself to a few mills. His commission, usually 1%, is paid by the seller when he represents the seller, and by the buyer when he purchases upon request of the buyer. The older and larger brokers usually act as exclusive selling brokers for foreign merchants; a few are exclusive buying agents for large mills.

Another example is the cocoa broker. Cocoa brokers effect practically all the sales of cocoa beans to consumers and also operate in the sales between merchants and dealers. Their operations are as follows: Located in New York City, they keep constantly in touch with the sources of supply and market conditions, stocks, prices, demand, and so forth. The importers are the general importers, the cocoa merchants or dealers, and the agents of foreign producers established in this country. When importers receive consignments of cocoa beans, samples and descriptions are taken by the brokers. The brokers, by keeping in constant touch with the demands of their clients, are able to supply the

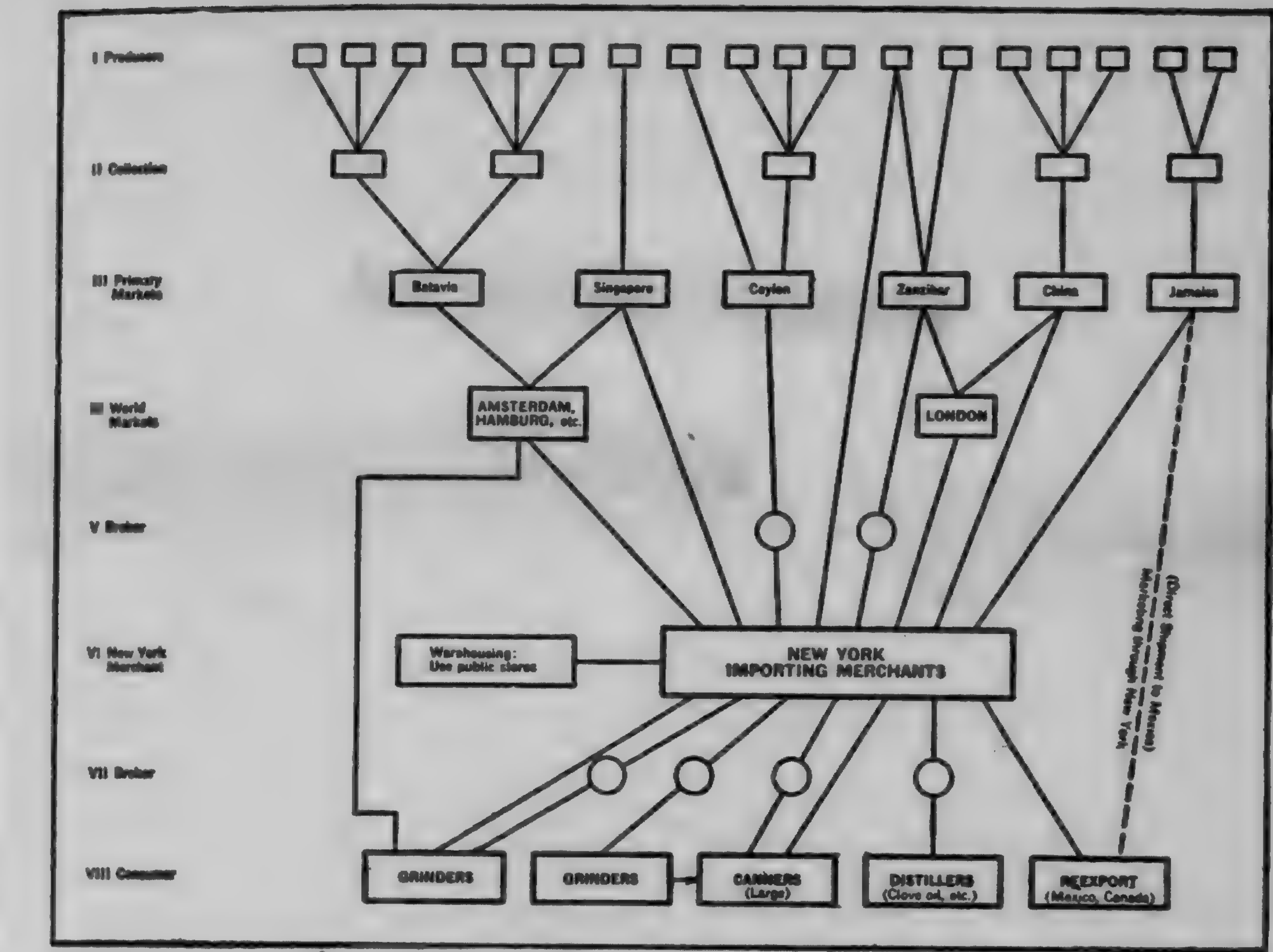

Figure 4: Marketing of spices.

demands of the buyer and to find markets for the supplies held or contracted for by the dealers. The broker stands as the go-between in practically all cocoa transactions in the New York market, which is the largest cocoa market in the world. He effects sales not only between the dealer and the manufacturer, but also between importer and dealer and between dealer and dealer. The cocoa broker may also operate in effecting sales between the dealer in the United States and the cocoa merchant in the other world marketing centers in London, Liverpool, Amsterdam, Hamburg, and Lisbon, although this is not common. His chief operations are between the consumers, dealers, and importers in the New York market. The cocoa broker, in some cases, is empowered to pass upon the quality of cocoa delivered or shipped on contracts even to the point of rejection. In New York, the established brokerage fee for these services is 1%, paid by the seller, and is included in the prices quoted. Infrequently, sales are made independently of the broker in the American market. Direct shipments to the consumer from the producing country are rarely made. Both the importer and the broker function in

practically all sales to the consumer. Counting resales by manufacturer to manufacturer, it is possible for cocoa to pass through seven hands between the producer and the manufacturer.

Figure 4 shows the organization of the marketing of spices.

IMPORT PURCHASING AGENTS

Another type of importing organization may be called the import purchasing agent. This is an importer who acts as the buying agent for manufacturers or merchants in the purchase of import products. The wool broker acting as exclusive buying agent for a mill is this type. He is a broker acting primarily in the interests of the buyer. The purpose is to simplify the buying process by elimination of some of the steps between buyer and seller, and to supply the definite needs of a client as to quantity and quality of goods. By acting for several manufacturers who consume the same types of raw materials, such an importer claims that better and cheaper service can be given. He aims to combine the advantages of direct and indirect importing. The import purchasing agent is, essentially, an import commission agent, who is acting in behalf of a group of consumers of imported commodities.

Several corporations of this type recently have been developed in New York, specializing in the import of department-store goods. These companies maintain in New York large display rooms containing samples of merchandise collected by their offices in Europe and the Far East. On the basis of these samples, buyers from department stores and jobbing houses place orders, which are filled through the company's branches and agents abroad. The importing company attends to all the details of assembly and shipment from the foreign country, and will, if desired, enter the goods through the custom-house in New York. Some of these companies act as exclusive buyers for selected lists of stores; others make no exclusive demands. The importing companies receive commissions on the value of the goods purchased, or fixed commissions on the actual cost, or commissions plus annual retainer fees. These organizations claim to give their clients the advantages of direct purchasing, or of purchasing through cooperative buying organizations, at much lower costs.

SELLING BRANCHES OF FOREIGN PRODUCERS

Several foreign producers and merchants, and combinations of foreign producers, maintain their own selling organizations and warehouses in the United States. Merchants or consumers then make their purchases from these branches as they would from a domestic wholesaler or distributor. There appears to be a growing tendency, especially for large producers, to establish their own selling organizations in this country. This applies to crude materials as well as to manufactured products.

The American branch of the foreign producer may be the branch selling house of a single producer, or it may be a branch representing a combination of producers. If the former, the practice represents no particular problem either to the purchaser or to competing importers. It is similar to any individual domestic merchant house, depending on the quality and effectiveness of its services to meet competition with other importing houses. There is little difference between the branch selling house of a foreign producer established in this country, and the exclusive selling rights granted by a foreign producer to an American importer. From the point of view of the manufacturing consumer, however, the tendency is significant, in that it gives the manufacturer opportunity to deal directly with the producer in the American market. It may eliminate several middlemen—the merchant or broker in the foreign country and the importer in this country. It is probable that for certain products the consumer of raw materials reaps distinct benefits from being able thus to deal directly with the producer. In other cases, it may be a limiting factor, if it should restrict the range of the consumer's choice of products and producers.

The selling house of a combination of producers offers a somewhat different problem to both the manufacturer and the merchant, to the extent that such a combination effects a monopoly control of the product. Within recent years the tendency to combination in one form or another by foreign producers of necessary raw materials has been marked. Some of these combinations have been successful in bringing greater or less control of prices and markets into the hands of the producers. One of the most notable of these combinations is the Sisal Sales Corporation, the selling agent of the Comicion Exportadora de Yucatan. Other

effective foreign combinations, attempting to control prices or sales in this and in other countries, are the Potash Importing Corporation of America, representing the German potash syndicate in the United States, Porto Rico, and Canada; the Quebracho Producers Association of the River Plate; the Cocoa Producers Association of Ecuador; and the Nitrate Association of Chili.

The Comicion Exportadora de Yucatan is a government-controlled cooperative organization of sisal producers in Mexico. The Sisal Sales Corporation, organized under the laws of the state of Delaware in 1921, is the exclusive selling agency for the Exportadora in the United States, as well as the organization for financing the Exportadora. After its organization, consumers were required to buy exclusively from the sales company. Since the combination has complete monopoly control of the Yucatan sisal, and hence 75% of world production, manufacturers have been entirely dependent upon the sales company. Price control has been entirely in the hands of the corporation.[3]

The effect of such combinations is particularly severe upon United States consumers, since effective combination of buyers to meet the demands of the producers' selling combination can be made in this country to only a limited degree. Under the Sherman and Clayton Acts, combinations of competing manufacturers for purchasing would be contrary to law. The individual consumers, therefore, must meet as individuals the selling combination. This situation has raised the question of permitting the combination of competing manufacturers for the purpose of purchasing imported materials (see Chapter V).

CUSTOM-HOUSE BROKERS, FREIGHT FORWARDERS, WAREHOUSEMEN, AND OTHER AUXILIARY AGENTS IN IMPORTING

The import broker of merchandise, mentioned above, is an agent performing merchandising services for the buyer of imported goods. Other service-performing organizations are available to the importer for arranging transportation of his goods; for entering goods through customs; for insurance, warehousing, financing purchases, and so on. Of these auxiliary agencies, the one most distinctly connected with the technical details of importing is the custom-house broker. The custom-house broker attends to all the complicated detail of effecting clearance of goods through customs; sees to it that necessary papers connected with the customs tariff are correctly made out; advises on the classification and valuation of dutiable goods; arranges for the payment of duties; and obtains final delivery of the goods to the importer. All these services are performed by him as the agent of the importer. Since these services are very highly technical, requiring specialists in handling tariffs and customs regulations, the custom-house broker performs an indispensable service for many importers who do a direct business. The fact that such services as these can be purchased often makes possible direct importing where it would be impossible if the direct importer had to provide the technique in his own business.

[3] See Grossetti, Louis, "Sisal: Production, Prices, Marketing," Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin No. 200*, 1924.

Most custom-house brokers also are freight brokers and forwarders, arranging all the details of securing ship freight space for imports and for forwarding goods to the interior. Many of the freight forwarders and custom-house brokers are represented in foreign ports, as well as in various ports and interior cities of the United States, and will arrange to take charge of all details of the assembly of goods of foreign interior centers and their shipment to the United States as well as their entry into the United States and forwarding to the interior. Custom-house brokers frequently combine other services in addition to freight forwarding. They may be steamship agents, marine insurance brokers, customs attorneys, warehousemen, draymen, public weighers, and "drawback specialists."

"Drawback" is a refund by the government of 99% of the duties paid on imported goods when the same goods properly identified are re-exported after being manufactured. The rules and regulations governing the exercise of this privilege are complicated and stringently enforced. The goods imported pay the regular tariffs and are entered through the custom-house in the usual way, except that a special form of "entry" is used showing that the goods are intended for re-export. After they are re-exported and satisfactory evidence given that the identical goods "entered" were contained in the manufactured export, the rebate is allowed. The refund may not take place until after many weeks or even months from the time the duties were paid. Because of these facts and because each case is separately considered

on its own merits, the specialist in drawback matters has come to fill a useful place in handling the technical details of importing.

Customs attorneys and customs advisors are specialists in legal and technical matters in customs procedure. They represent importers in appeals from decisions of the customs appraisers and in other legal matters before the Board of United States General Appraisers, the United States Courts of Customs Appeals, and in other courts in which customs matters are argued.

A bank may be an auxiliary agency in importing, in addition to its principal function in financing the import trade, by aiding importers through its service department, and by receiving imports on consignment for the account of the clients whom it is financing. The financing of imports and the service of the banker to the importer will be discussed in Chapter VII. Import merchants themselves sometimes perform some of the financing functions. They may act as bankers, or as agents of bankers, buy and sell foreign exchange, and finance the foreign seller or the domestic buyer.

Public warehouse and drayage companies are found in all important ports and perform a necessary and specialized service for importers. Warehouses and draymen may be "free" or "bonded." To handle imported goods they must be bonded by the Federal Government and must operate under the supervision of a Federal customs officer. In addition to the usual services performed by public warehouses, that is, storage of goods and the facilitating of commodity loans by means of warehouse receipts—bonded warehouses serve the importer of dutiable goods by making it possible to buy merchandise for delivery in the United States in advance of needs without payment of duties. That is, the merchandise may remain in the bonded warehouse for a period not to exceed three years, payment of duty being deferred until the merchandise is withdrawn. This also allows the importer to take advantage of expected reductions in tariff rates, since duties are payable at the rates prevailing at the time of withdrawal from the warehouse. They furthermore make it possible for the importer, under certain conditions, to inspect the goods, take samples, repack, clean, sort and grade, and even to manufacture in a limited number of cases, for re-export without actually paying duties. If goods are destined for interior points in the United States, they may be "entered for transportation"

by the importer, loaded in cars and sealed, thus avoiding the necessity of paying the duty at the coast port. Some of the larger warehouse companies undertake the management of individual private warehouses for others, as operating warehouses on behalf of banks or other fiscal agents who desire responsible control of collateral merchandise. They may also furnish experts for sampling, inspecting, and appraising merchandise; arrange for transportation; and undertake other services for the buyer.

There are several classes of United States bonded warehouses established by law. Class I warehouses, or "public stores," are warehouses owned or leased directly by the government for storage of goods during customs examination; or for storage of unclaimed or seized merchandise. The latter type of public stores are known as "general order stores." Class II are importers' private warehouses bonded for exclusive use of goods entered and owned by the proprietors. Classes III to VI are general warehouses, yards, sheds, grain elevators, and separate bins bonded by warehouse companies for general use of importers. All the bonded warehouses included in classes I to VI provide merely for storage of goods later intended for re-export or for entry for domestic consumption, without payment of duty until withdrawn. Goods so stored must not be removed from the original package nor changed in any way. Warehouses under classes VII, VIII, and IX are for manufacture in bond. They are solely for the manufacture of articles made in whole or in part of dutiable imported merchandise, or of imports subject to internal revenue tax, which are to be re-exported. No duties are paid on imported materials used in such warehouses. Goods made in a bonded manufacturing warehouse must be exported, as a general rule. Cigars, however, may be manufactured both for domestic sale and for exportation, but only if made of tobacco imported from one country. Imported ores and crude metals may be smelted under bond and either sold in the domestic market or re-exported. Other special-purpose bonded warehouses are allowed by law, as warehouses for cleansing imported rice for export, or for storage and examination of tea, a duty-free article subject to examination for quality.

"Manipulation warehouses" were created under the Tariff Act of 1922 according to which, under government supervision, "merchandise may be cleaned, sorted, repacked, or otherwise changed

in condition, but not manufactured, in bonded warehouses established for that purpose, and be withdrawn therefrom for exportation without payment of duties."[4] Manipulation warehouses enable the importer to avoid the complications of the drawback in performing simple operations on merchandise to be remarketed in foreign countries. Their particular advantage comes from the opportunity offered to break up large shipments into small units for distribution to small markets. The success of the manipulation warehouse, however, is yet to be demonstrated by experience.

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INTERNAL ORGANIZATION OF IMPORT HOUSES

The internal organization of import houses varies widely, as shown by the accompanying organization diagrams of several typical companies. The nature and complexity of the organization depends, of course, on the size of the company, the nature

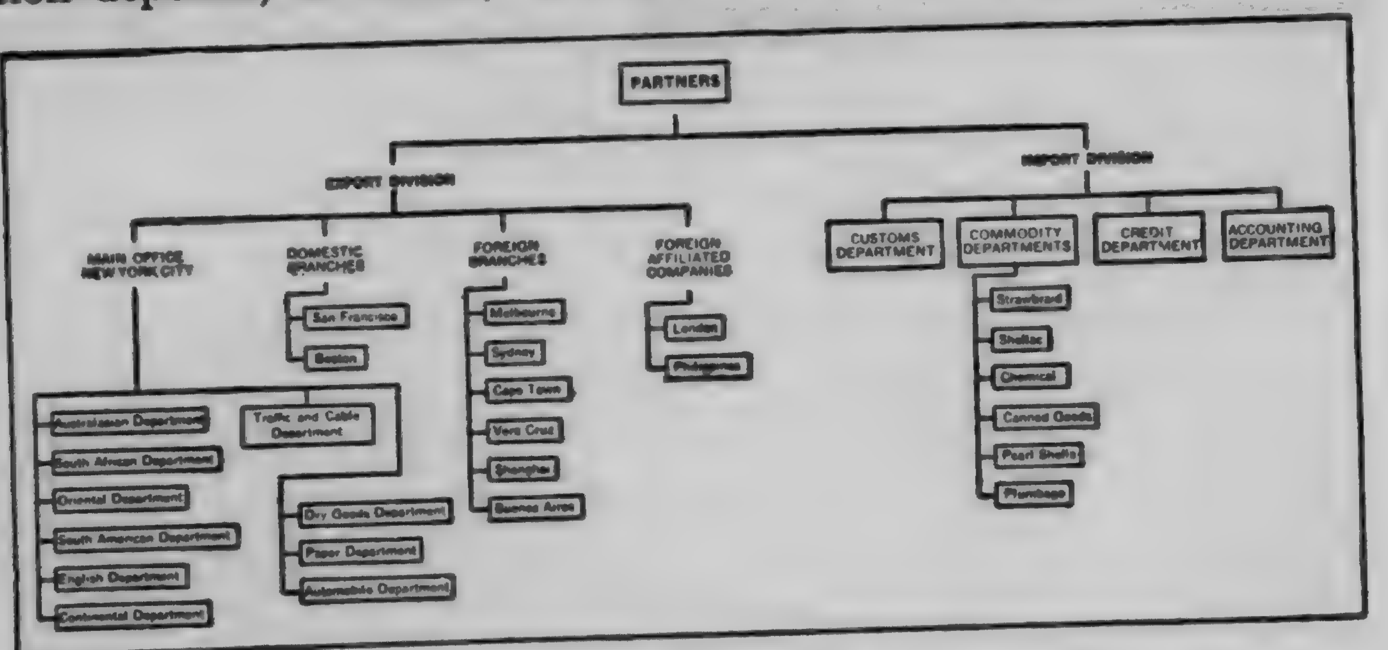

Figure 5: Organization of export-import commission house.

of its business, the geographical extent of its operations, the personnel of its management, its history and development, and many other factors. Merchant houses handling a wide variety of commodities may have a complex organization with a multiplicity of departments, while a house handling one commodity may consist of only a single individual merchant with a small office force. A large import organization may be subdivided, for administrative and management purposes, according to geographical divisions, according to commodities, according to functions, or a combination of all these types may be employed.

[4] Tariff Act of 1922, section 562.

The large trading houses that do both an export and an import business usually have a separate import department subdivided according to commodity groups, even when, as is usually the case, the export department is subdivided according to geographical regions. Functional division—such as financial, letter of credit, exchange, cable, insurance, publicity—will serve all other departments as well as the import department, and the import manager, of course, coordinates his work with the regional divisions of the export department.

The organization will generally reflect the nature of the importing functions performed and at the same time the magnitude of the business. For example, if an importer handles large quantities of certain commodities as a merchant distributor, that is, if he imports, warehouses, and resells, it is advantageous to form a separate division or department for each important commodity. The buying and selling of each commodity may be a specialized business, requiring a distinct personnel, and it is desirable to treat it as a separate unity. An example is furnished by the organization of a large importer doing a general import business chiefly on a "to order" or a "c.i.f." basis. Certain commodities, however, are handled strictly on a wholesale merchant basis, as rubber or strawbraid. The company, therefore, has a "linseed department," a "strawbraid department," and a "rubber department." Other commodities and the to-order business are handled by a general "import department."

In some organizations the import department is merely a functional department, attending to the technical details of importing and not concerned with the actual buying and selling of goods. A "letter of credit department" is another example of a functional division, performing expert service for all other divisions. Where a large amount of business is done on a letter-of-credit basis, such a division is appropriate.

Merchants specializing in importing one or only a few commodities tend to organize according to the requirements of their specialty. The basis is likely to be according to commodities, but in some cases division by geographical regions may be preferable. The wool merchant, for example, who imports from several regions will be likely to divide his organization by regions, since the quality of wool varies regionally. One buyer will handle Australian wools, another South American wools, a third

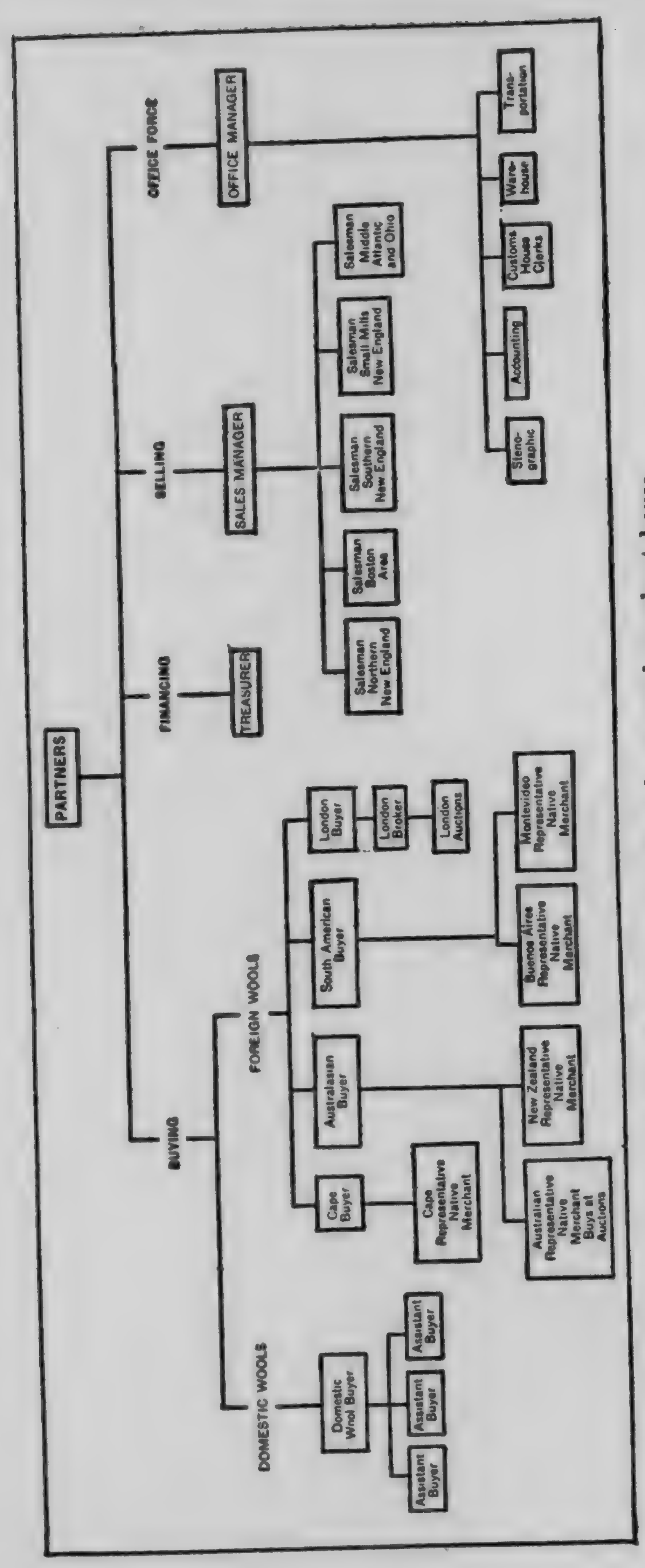

Figure 6: Organization of large wool merchant house.

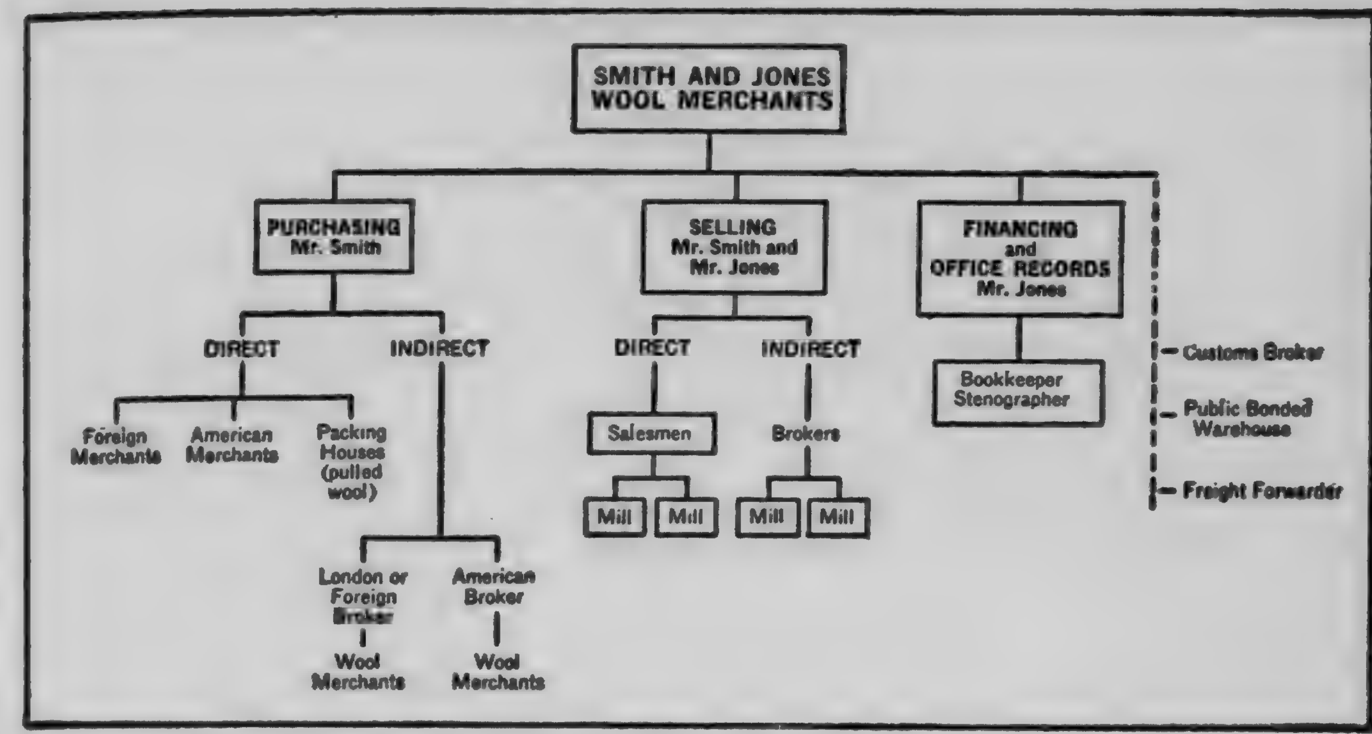

Figure 7: Organization of small wool merchant firm.

South African, and so on. So strong is the influence of technical knowledge of quality that the tendency is for each individual merchant to specialize in some one or few grades of the product; in large organizations where several products or grades of products are handled the organization is likely to be divided in response to this factor, each division being in charge of a commodity specialist. One hide and skin merchant may handle almost exclusively South African products; another Indian skins; and a third South American; if all three regions are handled, the organization is likely to reflect the tendency to specialization in department organization.

FOREIGN ORGANIZATION OF IMPORT HOUSES

The import merchant may establish buying relations in the foreign market in the following ways: (1) Establish branch offices; (2) send buyers abroad; (3) select exclusive foreign buying agents or representatives, that is, "commissionaires"; (4) employ correspondence or cable; (5) receive consignments from foreign shippers; (6) a combination of methods. He may buy (*a*) directly from the producer or manufacturer; (*b*) from the foreign merchant or collectors in primary markets; (*c*) from the exporting houses established in foreign ports or in world marketing centers.

The advantages of a branch buying house in the foreign

country are obvious, provided the volume and character of the business—actual or potential—justify it. With a branch organization abroad, the importer is in a strategic position to keep in touch with the conditions of production; to establish direct relations with producers or merchants in producing centers; to take advantage of any unusual opportunities in the market; to give attention to the demands and special needs of his customers to an unusual degree; to provide for extension of credits to producers or merchants where this is desirable or necessary; to provide adequate facilities for sorting, grading, and packing goods; and in general to facilitate all the operations of buying, financing, and transporting. In some markets and for a few products, the merchants who combine export and import have special advantages, since an essentially barter relationship can be established, resulting in obtaining goods not otherwise obtainable or not obtainable at competitive prices. Such houses may also at times affect material savings on exchange transactions, although such opportunities are not likely to be frequent.

Because of certain legal advantages, savings in taxes, and the advantages resulting from the local prestige that it gives, it is frequently desirable to incorporate the foreign branch as a separate company under the laws of the country where established. There is no uniform policy in this matter, even by houses doing a similar business. Whether or not separate incorporation is effected depends on the laws of the country and the nature of the business.

A policy of foreign representation that may give essentially the same advantages as the establishment of a branch is possible by selection of a foreign merchant as an exclusive buying agent. If such a foreign company is thoroughly organized in the producing country, and has a well-established reputation, an arrangement whereby the foreign merchant becomes the exclusive buying representative of the importing house, and the importing house the exclusive selling agency for the foreign merchant in the United States, gives distinct advantages to both. An importer with branches in some markets may find in other markets such a relationship distinctly preferable to establishing his own branch. Some very satisfactory arrangements of this kind have been established by American importers with old established British or German houses operating in foreign countries. Similar

arrangements are also made with native houses. Arrangements of this kind are, of course, not always possible, since it may be only by chance that this type of possible representation may be found.

Sending buyers abroad is to be preferred over a buying branch when (1) volume of purchases does not warrant the establishment of a branch, or (2) the buying is seasonal in character, or (3) the market is so well organized and the products so thoroughly standardized that constant supervision in the field is unnecessary or only slightly desirable. The active buying period for some commodities may extend over only a few months, or even a few days of the year, and resident buyers and office force could not be kept profitably employed the year round. Such is the character of wool-buying in Australia; hide- and skin-buying in India; coffee-buying in Venezuela and Colombia; fur auctions in Europe; or the buying of style goods in France or England at the seasonal displays. Periodic visits of buyers under such circumstances serve all requirements.

Purchase by correspondence or by cable is nearly always possible, particularly for goods that are standardized and purchased in well-organized markets. Foreign merchants, or even large producers, as well as brokers of good standing, can be relied upon, when carefully selected, to give satisfactory service in this indirect way. Large amounts thus are purchased each year by merchants, the offers and quotations made and received, and the bargains closed without any other agency than the mails and the cable.

LOCATION OF IMPORT HOUSES

Most of the large general importers are located in New York. As the largest import center of the United States, New York location is regarded as essential for many lines of goods. This is particularly true of manufactured goods, and of many raw materials as well. New York is not only the center of the dense population of the North East; it is also the center of the greatest industrial region of the United States. But the New York district is more than a large consuming center; it is also the marketing and distributing center of most lines of goods over a large part of the United States and Canada, the re-export center for goods destined to foreign countries, the financial center

of the country, and the port with the most frequent and the widest distributed steamship connections. In 1921, 53.1% of all imports into the United States entered through the New York customs district.

The specialized importers, however, locate not as much in reference to the general importing importance of New York as in relation to the markets for their special products. Wool importers and brokers, for example, are found chiefly in Boston and in Philadelphia, the two chief wool textile centers. Likewise, hide and skin importers are found in largest number in these same cities since the leather trade centers are in New England and in the region around Philadelphia. Raw silk importers, on the other hand, are practically all located in New York, the center of the silk industry. Sisal imports come largely into New Orleans, although some of the largest importers are located in Boston and New York. Several specialized importers of manufactured goods also are centered in cities other than New York. As an example, the largest import merchants of chinaware in the United States are located in coast cities other than New York and in interior cities.

ORGANIZATION FOR DISTRIBUTION IN THE UNITED STATES

Since the import merchant brings into the country goods for others or for resale to others, his successful operation involves an ability to obtain, develop, and hold customers in the American market or other countries to which he may re-export. The importer who also is a distributor may sell only to the large distributors in the leading market centers, such as the large wholesale grocers or dry-goods merchants in New York and Chicago; to the smaller wholesale distributors throughout the country; or directly to the department stores, chain stores, small retailers, manufacturers, or other consumers. The size and character of his organization for reselling will depend upon the degree to which he attempts to reach the ultimate purchaser. The large general importers who attempt wide distribution to small wholesalers and retailers maintain elaborate selling organizations; others who deal only with the large distributors or who maintain relations only, or primarily, with manufacturers need a less extensive organization. Organization for distribution of imported goods does not offer any problem essentially different from the wholesale distribution of domestic products.

Some importers maintain branch offices in various market centers in the United States; others direct their selling activities entirely from the main office, usually in New York. The nature of products to be sold, the extent of distribution to be attempted and the market situation in various parts of the United States, are the chief factors in the decision to establish branch selling houses. Several of the large general import and export commission houses have branches in New Orleans and San Francisco. These cities combine advantages both for importing and for distribution to the areas served by each center. Los Angeles, Seattle, and Portland are other centers used on the Pacific Coast, and Charleston, Atlanta, and Galveston for the South. The location of branches is frequently determined chiefly by the products principally handled, since the branch will be located in reference to the market. For example, several of the large New York houses importing from Latin America maintain branches in New Orleans and San Francisco, primarily in reference to the importance of these cities as the leading coffee markets next to New York. A large importer of Chilean nitrates maintains offices primarily for nitrate distribution in several cities well situated for fertilizer distribution. Boston wool merchants frequently have branches in Philadelphia and in Cleveland, the largest wool textile center of the West. New York coffee importers are likely to have branches in the important markets of New Orleans and San Francisco and in interior cities, such as St. Louis and Chicago (see Chapter V).

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IV

DIRECT IMPORTING

Direct importing usually means importing by the manufacturer or other consumer of foreign goods, or by the retail distributor, directly from the foreign seller without the employment of merchandising middlemen in the United States. There are several degrees of "directness" in importing. The consumer in the United States may buy directly from the producer in the foreign country without the interposition of any merchandising middlemen whatever either in the United States or in the foreign country. This is the most direct. He may buy in the primary markets abroad at auction sales, or at fairs, or from the collecting merchants in those markets. He may buy, not from the merchants directly in the interior markets, but from the exporters and large merchant middlemen at the exporting ports who have purchased from the small merchants or collectors and have assembled the goods at the ports ready for shipment. In any of these cases, the importer is considered as doing a direct importing business, although, except in the first instance, he has not bought from the producer but from a middleman in the foreign country.

The "direct" importer, furthermore, may deal directly with the seller, sending his own salesmen out from the United States, arranging for the transportation of his goods from the foreign port and himself "entering" them through the custom-house in this country; or he may make his purchases through agents or brokers in the foreign market, and hire freight forwarders and custom-house brokers in the United States to attend to all the details of shipment from the foreign country and for entry through the customs in this country. But if the merchandise middlemen—the import commission house or import merchant—in this country are not employed, the import transaction is said to be "direct." Direct importing may be carried even further than purchasing from foreign producers and merchants. A manufacturer, for example, may himself produce the products

he imports, as when he builds a factory, establishes his own plantation, or develops and operates his own mines in the foreign country in order to assure himself of adequate supplies of imported products.

The development of direct importing, both by manufacturers and by domestic merchants, has been less rapid than has direct exporting. This is due largely to two reasons. In the first place, the purchasing of raw materials is, on the whole, well performed by importing middlemen, and in many cases the merchant middleman is indispensable; in the second place, less attention has been given by American producers and merchants to the problems of purchasing than to the problems of selling. Because of the nature and problems of foreign trade, the early development of both importing and exporting was largely in the hands of the specialists—the import and export merchants, commission men and brokers. The great emphasis that has been given in the United States to exporting in recent years has resulted in a rapid development of direct foreign selling by the sales departments of manufacturing houses that export. Corresponding thought and attention has not been given to the problems of importing. Large purchasers of foreign merchandise, such as the department stores, have until recently paid little attention to direct buying. The smaller stores have been unable to do so in the nature of the case. With the increase in the size of stores, and with the development of cooperative systems of foreign purchasing, at the present time direct buying abroad has become widespread among the department stores and other large retailing organizations, such as the chain stores.

DIRECT IMPORTATION OF RAW MATERIALS AND CRUDE FOODSTUFFS

An increasing consideration is also being given to the direct importation of raw materials by manufacturers and other large consumers. This is manifest in the increasing number of manufacturers who have taken control of foreign sources of production or who have established direct relations with foreign producers and merchants. It is also evident in the interest now apparent in cooperative buying and the formation of cooperative import associations. The very nature of American manufacturing industries gives an importance to raw-material selections found in

no other industrial country. Mass production, standardization of product and process, increasing use of automatic machinery, high labor costs, high quality of finished product demanded, increasing need of effecting all possible economies in production as international competition increases—all these put emphasis on the need for well-selected raw materials for American mills. The raw material must be of high and uniform quality. It must be dependable both to meet the requirements of the automotive machine and the standard finished product. There must be assurance that the raw material will come in sufficient quantities and with the regularity necessary to keep the plant operating uniformly at maximum capacity. Selection of raw materials by competent buyers becomes more and more necessary; and for this reason American manufacturers are paying more attention to direct purchase of their raw-material needs in foreign countries.

The arguments that may be advanced in favor of direct importation of raw materials, including crude foodstuffs, may be summarized as follows:

1. Savings in middleman's profits, fees, and commissions. This is frequently the first appeal—economies in purchasing.

2. Better selection of goods of the special quality desired by the manufacturer. With his own organization dealing directly in the foreign market it is thought that the manufacturer's opportunity for better choice may be increased.

3. Ability to take advantage of unusual opportunities for securing goods at low cost or of especially high grade. Intimate contact with the foreign market would be likely to give the manufacturer such advantages.

4. Improved market information, making it possible better to judge the tendencies of the market. As a direct buyer, the importer is compelled to keep in closest possible contact with conditions likely to affect quality or costs; hence, he can formulate his plans more intelligently.

The disadvantages may be summarized in the following way:

1. Direct purchasing puts merchandising risks upon the manufacturer or retailer which had better be borne by the import merchant. Such risks arise from:

- *a*) Price fluctuations, which are likely to be greater in imported articles because of the long period between time of purchase and time of delivery;
- *b*) Exchange risks, a feature entirely absent in domestic purchasing;
- *c*) Loss or non-delivery of goods, probably a greater risk than in domestic trade;

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- *d*) Delivery of goods of inferior quality—if quality is not up to grade a manufacturer suffers directly from lack of proper material, and he can less easily resell goods not suitable than the merchant importer.

2. Direct purchasing often gives the buyer less extensive assortment of qualities and grades, since he is not likely to be in so close touch with all sources of supply as the merchant who specializes in the product, and purchases large quantities of all grades in all markets.

3. Increases in overhead expenses may more than balance savings made in eliminating importer's profits, commissions, brokerage fees, and so forth. Such overhead expenses are involved in increased size of the organization at home, traveling expenses of buyers sent abroad, branch buying offices abroad, warehouse expenses, and other expenses made necessary by establishing direct relations.

4. Increase in capital requirements may be necessary due to the necessity of carrying stock, of financing imports over longer periods of time, in making advances to producers, and so forth.

5. Direct importing brings the manufacturer in competition with agencies which have specialized in the technique of importing and are organized to perform all importing services efficiently. For example, the import and export merchants may be able to do a barter business in unorganized markets, resulting in distinct economies in purchasing, or they may have extensive facilities for collecting merchandise, giving credit facilities, and in performing other services that the individual direct importer can rarely so well perform.

6. If many independent consumers are purchasing in the same market and bidding against one another, prices are likely to be increased as a result. The seller may gain the idea that demand is greater than it actually is.

7. The purchasing organization of a consumer of raw materials should not be restricted to any one method or any one market. The purchasing organization should be free to buy where it can obtain goods to the best advantage, using the method best adapted at any given time. Purchases in the domestic market from jobbers, from importers, or through brokers may at times be more advantageous than direct purchasing.

The above advantages and disadvantages do not apply equally to all raw materials or to all users of imported raw materials. Neither do all the factors mentioned apply to any one raw material. In a general way, it may be said that, assuming the consumption of the individual manufacturer to be sufficiently large, direct importing of raw materials or semimanufactured goods is likely to be favored:

1. Where the materials are bulky and are moved in cargo shipments,

as, for example, iron ore, china clay, petroleum, asphalt, nitrates, asbestos, jute.

2. When the resources are found in large amounts in a single producing or marketing center or in a few large centers. That is, the materials are not so scattered in small quantities that many collecting or purchasing branches are necessary. The articles mentioned in the above paragraph are examples. Other examples are rubber, goat skins, Manila hemp. When a commodity is produced by a large foreign producer or by a combination of producers, the effect is the same as if the product were produced in a single center; if both large producers and localized centers of production exist, the facilities for direct contact are still further increased. Yearly contracts may be entered into with large producers or large merchants in such centers for the supply of specified grades or qualities of materials. Examples of large producers in localized centers of production are to be found in the rubber plantations of the Far East, the coffee producers of Brazil, the wool growers of Australia, the producers of high-grade packer's hides in Argentina.

3. When the raw material needs special selection for quality and grade. Examples are raw furs, bristles, ivory, tobacco, goat skins. If the goods are highly standardized into well-defined grades, direct purchasing may not be so desirable, since purchasing can then be done by grade or description without personal supervision of the buyer.

4. When special facilities or special care are needed in the transportation of the commodity, as, for example, petroleum, which requires tankers, or perishable poducts such as fresh fruits, which require special ventilation facilities or refrigeration and rapid transportation.

5. When the existing organization for production, collection, or marketing is inadequate in the foreign country to serve the industry. The manufacturer may be forced to establish direct connections if the foreign market is so unorganized or disorganized that he cannot depend on it. On the other hand, even when other considerations would favor direct importing, the existing agencies and organization in a market or for a commodity may be so efficient that direct relations are undesirable. The tendency for many foreign producers to establish selling offices in the United States may relieve the manufacturer from the temptation to go directly to the consumer; he may deal directly in the domestic market with the foreign producer or merchant.

Several large consumers in the United States have developed direct purchasing to the point of complete control of production, transportation, and importation. For example, the Bethlehem Steel Company owns and mines the iron ore of Chile, operates a fleet of ore-carrying vessels from Chile to the United States, and brings the ore direct to its plants in the United States. Similarly, the United States Rubber Company owns and operates, directly or through subsidiaries, rubber plantations in Sumatra; the

Barber Asphalt Paving Company controls production of asphalt in Trinidad and Venezuela; the Standard Oil Company produces petroleum and operates tankers from foreign fields to the refineries in the United States; the United Fruit Company owns and operates banana plantations in Central America, has built and operates railroads to the shipping ports, operates its own fleet of specially constructed steamships from the export ports to New Orleans, New York, and Boston, and from these import centers distributes fruit to the wholesale fruit dealers throughout the United States.

Raw materials that are non-bulky, of wide geographic distribution, well standardized as to grades, and handled through long-established and well-organized markets do not offer the same opportunities or the same necessity for direct importing. Examples of such raw materials are many gums and resins; shellacs; crude drugs; tanning materials; spices; grains; cocoa beans; raw cotton. Even in the case of these classes of raw materials, however, direct importing may be feasible if the purchases by the manufacturer or merchant are large enough to insure the economies or other advantages desired. The development of cooperative purchasing would further extend the possibilities of direct importing to such materials.

DIRECT IMPORTATION OF MANUFACTURED PRODUCTS

The considerations influencing the direct importation of manufactured products do not differ essentially from those discussed in the preceding section for raw materials. The chief differences lie in the fact that the great bulk of raw materials are for the use of manufacturers, that most raw materials have been to a greater or less degree standardized as to qualities and grades, and that the processes of marketing and the markets themselves have become well established and well organized. While these considerations do not hold for some raw materials and crude foodstuffs, they characterize this group of commodities as a whole. One great group of manufactured products—the staple or standardized goods—are influenced by similar considerations in their importation as are the major number of crude materials. The other large group of manufactures—those requiring selection—are influenced by similar considerations as the small group of raw materials, like fur skins, that require individual selection. The differences between

manufactured goods and raw materials that influence the processes of purchasing are not in kind but in degree. Individual selection is more likely to influence purchasing policies in the case of manufactured goods than in the case of raw materials, since manufactured goods on the whole require a greater degree of personal selection.

In the case of raw materials, there is but one class of purchasers who may be largely interested in direct importing—namely, the manufacturer, including also large mining companies and public utility corporations, such as the railroads and telegraph companies. In the case of manufactured goods, however, in addition to the manufacturer, the retail merchant is a purchaser. The individual consumer himself may import directly when he buys through mail-order departments of foreign department stores.

As above stated, therefore, manufactured goods may be divided into two broad classes as they are related to the problem of direct purchasing. First, standard products or staples; second, selection goods.

The first class—staples—are goods that have become fairly well standardized as to character and grades throughout the world, so that in buying personal selection has but slight influence. They can be ordered by name or grade or specification. Examination is necessary only to assure that quality is as claimed, and such examination usually can be made independently of the purchaser. Examples of such goods are certain classes of cotton piece goods—sheetings, shirtings, ducks, and the like; chemicals; many iron and steel products, such as rods, bars, and plates; paper; yarn; flour. Some of these staple manufactured products require further preparation for use, or are the raw materials for the manufacture of other products. Some of them, however, are purchased by the individual consumer for immediate consumption. The purchase of such manufactured goods is influenced by considerations similar to those connected with the purchase of raw materials.

The second class—selection goods—are those which involve personal taste and selection in their purchase. These include style goods, novelties, curios, art goods, and goods required to serve specialized purposes. Examples are millinery; clothing; laces; jewelry; chinaware; musical instruments; scientific instruments; agricultural and industrial machinery; finished piece goods, such as cotton prints, fancy woolen dress goods; and so forth. Many of this class of goods are available for immediate consumption by the ultimate consumer; others, as fancy woolen dress goods, are purchased by the manufacturer for making into style or selection goods. The line of separation of the two classes is not always clear. There is present a greater or less amount of "selection" even in staples; and style goods, such as clothing, gloves, and hats, often have a considerable degree of standardization. Certain classes of machinery used in a mine or mill through long usage may become "standard" throughout the world; other classes may involve personal examination and selection in their purchase by the mill owner or the mining company. The need for direct purchasing of merchandise is directly proportional to the degree of selection necessary in obtaining the desired goods.

ORGANIZATION FOR DIRECT IMPORTING BY THE MANUFACTURER

The manufacturer may organize for direct importing in several ways. A separate import department may be established or importing may be made a function of the general purchasing organization. If a separate department, it may be as a division of the purchasing or some other department, or as a coordinate department with the purchasing department; it may be located at headquarters or at the seaboard; or it may be a separately incorporated company under full control of the parent company. Instead of a separate import organization, importing may be carried on through forming or joining a cooperative buying organization.

In the foreign country the direct importer may establish connections in the same manner as the import merchant, as described in Chapter III. Branch buying houses may be established or purchasing may be done through buying agencies or commissionaires under exclusive agreements; buyers may be sent abroad periodically or relations with foreign sellers may be maintained by correspondence and cable; warehouses or assembly plants for simple preparation, grading, and storage of products may be maintained in connection with the branch house, or full control of production and sale may be established by ownership and operation of plantation, mine, or factory. The method of organization employed will, of course, be determined by the size, nature, and financial resources of the company, the products dealt in, the conditions in the foreign market, and other factors. The establishment of direct

relations with the foreign merchant or producers by the importing manufacturer may be made comparatively easy in many instances, since the purely technical functions of importing can be put in the hands of the custom-house brokers, freight forwarders, and other specialists. Buying directly abroad may, therefore, involve nothing more than the extension of the buying operations into foreign countries by means of sending buyers to those countries or by placing mail or cable orders directly with the seller. No essentially new technical functions need be assumed. This would be particularly true when purchases can be made in United States dollars and in markets that are well organized.

THE IMPORT DEPARTMENT AND THE SEPARATELY ORGANIZED IMPORT COMPANY

For the manufacturer, the organization of a separate import department, independent of the purchasing department, is very rarely undertaken. The procuring of all materials—whether domestic or imported—is a function of the purchasing department. If some of the imported material can better be obtained by direct relations, while other materials, or the same materials at other times, can be obtained more advantageously through the importing middlemen, or in the open market, it is evident that a division of function according as relations are direct or through middlemen would have no reasonable foundation. Purchasing in all its phases belongs to the purchasing department where such exists. It may be that special buyers will need to be employed for imported products, but such buyers would bear the same relation to the purchasing department as buyers of domestic products.

The technical details of handling importing, however, may be advantageously given to a separate organization if an important group of products are directly imported. Such a division, however, would be concerned less with the actual purchasing of goods and more with the handling of the highly technical details of import and tariff procedure. It would perform the functions usually performed by a custom-house broker. It might be a division under the traffic department or a part of the purchasing department, or an independent department. This is the type of "import department" established by some department stores. (See Chapter V.) It is not concerned with the actual problems of buying,

but with the problems of bringing in the goods after purchases have been made by the buyers. It is a department for performing technical services connected with importing.

A separate import purchasing division, however, may be desirable in a large organization for certain important products purchased in large quantities. Such a division should be a part of the larger purchasing department and directly under the chief purchasing officers.

A separate import department established at a seaboard city may be desirable for an interior manufacturer or merchant. Such a department would be able not only to handle the technical details of importing at the entering port, but would be in position also to keep closely in touch with the import market and to arrange for indirect purchases in the market as well as for direct purchases. In the case of large corporations requiring very large purchases abroad, separately organized buying companies may be formed. The advantages of separate incorporation are largely legal, one of the chief advantages being that, in its relations with the foreign seller, the parent company is not directly involved. In financing its imports, and in other ways, this may be distinctly advantageous.

Cooperative importing and general methods of raw material importing are discussed in Chapter V.

DIRECT IMPORTING BY RETAIL MERCHANTS

The retail merchant may choose to purchase directly in the foreign market rather than through the import houses. The larger department stores, grocers, art stores, and other large retailers, have long purchased direct. Because of the need of personal selection in most classes of manufactured goods purchased for resale, direct importing is of special importance to the retail merchant. Because of the expense involved, however, only the larger stores and the specialty stores have been able to develop direct import buying on a large scale. Retail merchants maintain direct contacts by the following methods:

1. Correspondence and cable with foreign producers and merchants;
2. Buyers sent abroad direct to manufacturers;
3. Buying through European commissionaires;

4. Branch buying house abroad;
5. Membership in cooperative buying associations;
6. Group buying.

The problem of retail store importing is discussed in Chapter V.

Selected References:

See references at end of Chapter V.

V

METHODS OF PURCHASING AND DISTRIBUTING IMPORTED GOODS

METHODS OF PURCHASING RAW MATERIALS

THE consumer of imported raw materials has available the following methods by which he may obtain merchandise produced in foreign countries. He may purchase through or by means of:

1. General purchasing agents in the United States
2. Jobbers or wholesalers in the United States
3. Import merchants and commission houses
4. American selling organizations of foreign producers or merchants
5. Import brokers or commissionaires in the United States
6. Brokers or commissionaires in foreign markets
7. Auctions in the United States
8. Auctions in foreign countries
9. Fairs in foreign countries
10. Correspondence or cable
11. Buyers sent abroad
12. Permanent branch buying offices abroad
13. Membership in cooperative import buying associations
14. Control or ownership of factories, mines, or plantations in producing countries
15. Combination of two or more of above methods

Not all of these methods are available for every commodity, and rarely will the purchaser depend on one method only. The agencies that will be employed by any particular consumer in obtaining supplies of foreign goods are dependent on many factors, such as the size of the firm, the variety and nature of the materials imported, custom and organization of the trade, the personnel available, and the relations previously established. In general, it may be said that the buying organization should be so elastic that a purchaser may be able to take advantage of any favorable condition in regard to price and quality. Rarely will it be wise to establish any rigid policy or build up any organization that cannot be adapted to the situation at any given period.

In some commodities, direct importing may be advisable; in others, not. In some markets it may be well to purchase directly, while in others the same commodity is better purchased through the import merchant or some other agency. Even in the same market, the purchases of today may be direct, but tomorrow it may be advantageous to buy from the importer or in the open market. Custom may frequently be the determining factor, with little reference to the absolute merits of the methods that have developed.

For these reasons it very rarely happens that a manufacturer can adopt a policy of exclusive direct buying or of indirect buying, or maintain an import department distinct from the general purchasing department. Today it may be to his advantage to purchase pig iron in the American market; tomorrow he may gain a price advantage by buying Indian pig through a representative of the British-Indian iron producers in New York; next week he may place his order directly by cable with a Belgian producer. If price advantage is the only or the chief consideration, the manufacturer must be able to take full advantage of the market situation. In many cases, however, price considerations may not be the chief factor. Quality of goods, dependability of deliveries, assurance of continuous and adequate supplies, may overcome temporary price handicaps and make it advisable for the consumer to establish his own buying organization, or even his own producing facilities, abroad for certain commodities. In the long run, however, for most raw materials lowest price consistent with quality must be the determining factor; and importing methods must be such that goods may be bought when and where, all things considered, they can be purchased at least cost. The purchasing officer must keep in touch with all sources of supply and modify his method to meet the situation of the hour.

For commodities bought in small quantities, which are highly specialized and secured from a wide range of sources, the general purchasing agent, the jobber, or the wholesaler may give the most efficient service. Many manufacturers buy raw materials through large purchasing agents in the large importing centers. These, in turn, place orders with the merchants, jobbers, or importers, as the case may be. Several such purchasing agents in New York City buy for interior manufacturers in the New York market. These purchasing agents rarely are importers and

therefore can give the manufacturer only the service of a buyer in the market where they are situated. The jobber or wholesaler will have assembled materials from all sources, both foreign and domestic, and all grades of the commodities; he can, therefore, often give a wider range of choice of grades and quicker deliveries than would be possible to obtain through any other method. It may be that the jobber himself imports directly from foreign producers; in this case the connection between consumer and producers is close. There is a growing tendency for American jobbers to act as the exclusive representatives of foreign producers in the American market. When such is the case, the manufacturers can gain comparatively little by going direct to the foreign producer. The foreign producer will not undersell his agent.

Purchase through the import merchant, when the merchant is also a distributor in the American market, is not different from purchase through the jobber. As stated above, the jobber and the importer may be identical. The importer's connections in the foreign market may be so intimate that he can obtain the goods to better advantage than the manufacturer could expect to do by direct relations. On the other hand, desiring to make as large a merchandising profit as is possible, he may charge what the market will bear. The commission house buying upon orders placed by the consumer, likewise, in some markets and for some commodities, performs the importing service more cheaply and more efficiently than the manufacturer could by direct dealing. When the importer, however, is the agent of the foreign seller and his commission is paid by the seller, he is supposed to represent first the interests of the foreign exporter. He aims to obtain the highest prices for his principals. Nevertheless, his successful operation depends on maintaining cordial relations with the American buyers, and his services must be satisfactory to his customers, if his business is to expand.

The services of the import broker are frequently indispensable for the manufacturer consuming imported goods. This is true for materials that are required in special grades and that are produced in many countries and by many individual producers. Such a commodity, for example, is cocoa beans. It is estimated that over 90% of the cocoa beans used by manufacturers is bought through brokers. The cocoa broker keeps the manufacturer in touch with sources of supply that the individual manufacturer

could not well secure by his own efforts, no matter how large his purchases, or how elaborate his organization. The producer and the merchant in the producing country prefer to sell their product through merchants or brokers rather than to the manufacturer. The reasons for this are, first, the broker can offer a wider market than a producer could obtain by selling directly to the manufacturer, and he can offer a market for all grades at all times, whereas the manufacturer will require particular grades. The producers themselves rarely attempt to establish relations with the manufacturer. The continued dependence of the manufacturing consumer on the cocoa broker is made still more secure by the fact that the importers and dealers likewise prefer to sell through the broker. The broker keeps the dealer in touch with sales possibilities that he otherwise would be unable to find. Even if the manufacturer should deal directly with the dealer, he would not be likely to receive a reduction in price equal to the 1% commission which the import merchant would pay the broker if the sale were made through the latter agency. That is, there would not likely be any material saving in buying direct. The broker, therefore, serves well both the buyer and the seller. Attempts by manufacturers to deal directly with the foreign producer of cocoa beans, or even with the importer in this country, have been generally unsuccessful. In the case of some very large producers and for some special grades of cocoa produced in localized centers, direct relations have not been unsatisfactory. Such instances, however, are infrequent and unusual.

The wool broker in the United States performs a similar service for the wool consumer, although the wool broker is not used so exclusively as is the cocoa broker. Likewise, the hide and skin brokers, the spice brokers, and many others, frequently are indispensable to the manufacturer. Certain food products that are sold by auction in the American market are necessarily purchased through brokers. For example, Spanish grapes are practically all consigned to New York brokers, as are nearly all "consigned products." Since brokers serve the foreign seller by handling consignments, not infrequently supplies of consigned goods that the manufacturer would not otherwise know of may be at the disposal of the broker. Consignments are, of necessity, distributed through the agency of a broker.

The commodity broker in the foreign market centers also may

be employed by the manufacturer, particularly in well-organized markets. For such important markets as London, Amsterdam, or Hamburg, the manufacturer may find it distinctly advantageous to secure the services of the broker for establishing contacts with sources of supply. Rubber, for example, or wool may be thus purchased in London. Rubber in Singapore and hides and skins in Argentina may be purchased through the foreign broker. Purchases of hides in Argentina are regularly made through brokers. Frequently the American tanner buys through the broker in the United States who in turn buys through the Argentina broker. At the tobacco auctions in Holland the employment of the foreign broker is practically indispensable. The manufacturer may employ foreign "commissionaires" to attend to purchasing, assembling, and forwarding of goods upon order. Such commissionaires may be paid commissions by the purchaser, as distinguished from the broker who receives his commission from the seller. Commissionaires are essentially foreign purchasing agents.

Some imported commodities are marketed in the United States through auctions. Spanish grapes are practically all sold in the fruit auctions in New York. The Spanish exporters consign the product to New York brokers for sale at these auctions. Furs are sold at the auctions in St. Louis and New York. Sales of raw materials and foodstuffs by auction are less common in the United States than in foreign market centers, and therefore United States merchants and manufacturers frequently find it necessary to be present at the auctions abroad. Wool is bought at auctions in London, Liverpool, and Sydney; tea at the London tea auctions and at auctions in Ceylon; rubber, formerly sold by auction in London, is still sold by auction in Singapore and Colombo; the tobacco auctions in Amsterdam dispose of much of the tobacco from the Dutch East Indies. Auctions may be "open," that is, the buyers may bid against each other in open, verbal competition; or they may be by sealed bids. Such are the so-called "Dutch auctions," originated in Holland for selling tobacco, but now the most common method of auction for most products in that market. Auction sales are favored when: (*a*) merchandise is perishable, requiring quick sales; (*b*) the merchandise is not graded, each lot or article requiring personal examination; (*c*) large quantities of the goods can be assembled in one central convenient market; (*d*) the commodities come from widely scattered producing regions

remote from centers of consumption; (*e*) the auction so dominates the trade as to attract a large part of the supply and large numbers of buyers—hence, the success of auctions for many commodities in London and Amsterdam, near the great consuming and marketing centers of Northwest Europe.

Fairs in foreign countries offer another opportunity for foreign purchasing. For many years the annual fair of Irbit, in Siberia, brought together buyers of raw furs from all the consuming markets of the world. At the annual fair at Nijni Novgorod, in Russia, also many raw materials were handled, such as bristles, tallow, leather, and hides and skins. While the "sample fairs," which have developed in Europe to so great a degree in recent years, are concerned primarily with manufactured goods, nevertheless many raw materials are handled. For example, at the Leipzig Sample Fair, bristles have long been dealt in; likewise, furs, feathers, leather, and other products.

Many foreign producers, merchants, and combinations of producers have branch selling houses in the United States or send salesmen to visit prospective buyers in this country. Many of these branch selling offices have been established in order to give the American buyer the opportunity of direct purchasing without sending buyers abroad. The selling agencies may merely obtain and forward orders to the home office; or they may maintain sample rooms in New York; or they may carry stock and sell directly from stock, making quotations in United States currency. Some of the selling branches have large powers and can act on their own initiative; others must refer all decisions to the home office. Some of the largest foreign producers have established separately incorporated selling offices in this country, while others are branch offices of the parent organization. Because of the varying degrees of responsibility maintained by these branch offices, no general conclusion can be drawn as to their effectiveness. Some American consumers continue to deal direct with the head office abroad, even when branches are maintained in this country by the seller; in other cases, the foreign producer refuses to sell customers in the United States except through the selling branch.

When satisfactory arrangements cannot be maintained by any of the above methods without personal representatives in the foreign markets, it is desirable to send buyers directly to the

markets. Buyers sent abroad, however, do not necessarily do direct purchasing. They may work through the brokers, commissionaires, or merchants in the foreign country. They are, however, able to give personal supervision to purchases and to obtain information regarding the commodity and market conditions not readily obtained otherwise. Inspection of purchases and the establishing of personal relations may justify the buyer's trip, even if the purchases are made only indirectly through middlemen. The ultimate aim, however, is direct purchasing by the buyer from the producer or in the primary markets. The difficulty of establishing such a relation, however, is great. The habit and custom of the trade may make it impossible. Expert buyers in the domestic market may not be qualified for buying abroad. Language qualifications, or lack of personal knowledge of the intricacies and peculiarities of the foreign market, may debar them. Knowledge of the commodity alone is not sufficient. To find or to train buyers qualified for direct negotiation for foreign purchasing may be, and often is, a hindrance that cannot readily be overcome. Furthermore, qualified buyers often hesitate to reside for long periods outside of the United States. To train buyers only to have them serve for a short period is expensive and wasteful.

period

When purchases in any foreign center are large and well distributed throughout the year, a permanent buying branch office may be established. Branches may, under favorable conditions, greatly cheapen the cost of imported goods or improve the quality and certainty of supply. The branch house is an outpost for keeping in touch with the market; it is a headquarters for buyers, whether they permanently reside in the country or make periodic visits; it can collect, grade, sort, and otherwise prepare commodities for shipment to the United States; it may prepare reports on crop and market conditions; it can warehouse goods; attend to the details of financing; arrange for transportation; and in other ways make purchasing easier and more efficient. The method, however, is generally expensive and can only be undertaken when purchases from any market are large and continuous from year to year, and the technical services it can perform important and not readily delegated to middlemen. When purchases are highly seasonable, even if large, the branch house may not be advisable, since it would be idle during most of the year. It is

possible, however, that even in seasonable buying a permanent branch may pay because of its ability to keep in touch with crop or market conditions throughout the year.

A still further step in the direction of direct relations with foreign sources of supply is brought about when the manufacturer obtains control of the producing agencies in the foreign country. A warehouse established by the branch office for storing and sorting commodities may be expanded into a factory for a still greater degree of fabrication, or the manufacturer may seek control, in whole or in part, of the factory, plantation, or mine that produces the commodity. The establishment of rubber plantations in Sumatra by the rubber manufacturers is an extreme illustration of such an arrangement. Here is complete ownership and management. The reasons for direct control of production may be many. Only by such control, in some instances, can the proper grades desired by the manufacturer be produced; in other cases it is necessary in order to assure the home plant of adequate supplies, or supplies at reasonable cost; in still other cases it is but one evidence of the policy and process of integration in industry whereby a large corporation aims to control all processes from raw-material production to marketing of the completed product.

The purchase of raw materials by cooperative associations of manufacturers has not been developed in the United States, partly because of legal difficulties in the way of forming such buying combinations, and partly because of inherent difficulties in effecting such purchases. The present status of import buying associations is discussed below.

As a general rule, raw-material supplies are obtained by a manufacturer through a combination of several of the above methods. His buying organization needs to be so adjusted that he can take advantage of any favorable conditions in the market at any time or at any place. For example, a rubber manufacturer with plantations in the Far East, during the period of low prices in rubber in 1921, found it cheaper to purchase in the market than to produce his own rubber. At any time, however, the purchasing organization can take advantage of market conditions, buying now directly from the producers in Singapore; now from the rubber merchants in London; now in the spot market in New York; now through brokers; now directly from the producers or

merchants themselves. Alertness based on knowledge; adaptability; elasticity of organization—these are all requirements in raw-material purchasing, whether at home or in foreign countries.

IMPORT ASSOCIATIONS AND THE IMPORTATION OF RAW MATERIALS

While department stores have developed methods of cooperative importing to some degree, little has been done in this direction on the part of American manufacturers. In fact, buying associations of competing firms would be illegal under the Sherman and Clayton acts. There are, from the point of view of the manufacturer, obvious advantages that would result from the formation of import associations, and there are also obvious dangers and disadvantages both to the manufacturer and to the public.

The possible advantages claimed for cooperative buying of imported raw materials may be summarized as follows:

1. The manufacturing consumer is given more direct control of the market. At present, it may frequently happen that when several American purchasers of a given raw material are in the market at once, bidding against one another, prices are advanced to the disadvantage not only of the American manufacturers in their ability to produce in competition with foreign manufacturers, but also to the detriment of the ultimate consumer of the manufactured goods because of the higher prices the manufacturers must place on the completed product as a result of higher raw-material costs. For example, if five or six non-competing manufacturers should be at the same time in the market for shellac, practically all of which is produced in India, both the Indian merchants and the American buyers might gain an exaggerated idea of the demand for shellac and as a result prices might be boosted far beyond what the relation of supply and demand would reasonably warrant. Cooperative purchases of shellac by large consumers would prevent, or at least lessen, such a contingency. By distribution of orders over a long period, and in other ways, prices might be prevented from such unjustifiable increases.

2. Cooperative purchasing would make direct purchasing possible where it cannot otherwise be undertaken. Many individual manufacturing plants are not sufficiently large to undertake direct purchasing. Even when the volume of imported materials re-

quired is large, a single manufacturer may find direct purchasing impracticable when only certain grades or types of the commodity are needed, since some commodities, if purchased directly, must be purchased unsorted and ungraded. Rarely will one manufacturer consume all grades, and a manufacturer is ordinarily not equipped to dispose of raw materials to other consumers as an importing merchant. An association of manufacturers, on the other hand, might make it possible to purchase many grades of a commodity, all of which could be disposed of to the entire membership of the purchasing organization.

3. Cooperative buying would give the small consumer the advantages of large-scale purchasing. Such advantages are lower costs resulting from discounts on large purchases, lower freight rates on large shipments, and a general lower overhead cost.

4. Permission to form an import association by competing consumers would make it possible to utilize the existing export associations, organized under the Export Trade Act, or "Webb-Pomerene Act," so as also to import raw materials. At present, some of the export associations are distinctly handicapped because they cannot import. If an export association should establish steamship services to export its products, under existing laws it could not, as an association, bring in raw materials for common distribution. Neither could the association, in the course of selling in a foreign market, arrange to do a "barter" business by taking products in exchange. The Export Trade Act expressly states that the association can perform only the exporting function.

5. The last, and probably the most important, advantage claimed for an import association is the power it would give the buyer to protect his own interests in dealing with foreign associations of producers that aim to control price and production.

The combinations of foreign producers who are "potentially or actually in control of prices and distribution" as listed by Secretary of Commerce Hoover include sisal, nitrates, potash, rubber, camphor, quinine, tin, mercury, coffee, and quebracho.[1]

The potash combination. As an example of one method by which a foreign selling combination is formed, we may take the

[1] Letter to Senator Capper dated March 6, 1924, released by the Department of Commerce, November 17, 1924. See Part II, problem No. 21, page 277, "Import Associations."

Franco-German agreements as to potash sales and deliveries to the United States. Practically all the potash production is controlled by two producing combinations; one the "Deutsches Kalisyndikat, G. M. B. H." of Berlin, the other the "Alsatian Commercial Potash Association." These two syndicates completely control potash production in Germany and in France, respectively. The French Government itself is the chief owner of the Alsace mines and hence controls the Alsatian Association. The German syndicate has long been represented in the United States by a selling branch in New York and since 1923 by the Potash Importing Corporation of America, a Delaware corporation, formed under the direction of the German syndicate to effect sales and deliveries of potash in the United States, Canada, Cuba, and Porto Rico. The French potash producers, however, have been able to give effective competition to the German syndicate. Hence, in the summer of 1924, a Franco-German agreement was reached, aimed specifically to control the American market. This agreement is described as follows by the French Bureau of Information in New York.[2]

French and German industrialists have made a three-year agreement on potash deliveries to America.

According to the said agreement, it is provided for in principle, that the Alsatian mines will supply 37.5% and the German mines 62.5% of their total potash deliveries to the United States. As regards sulphates, however, Germany will supply 35,000 tons and Alsace 5,000 tons only. This preferential treatment granted to Germany, for sulphates, raises in fact her percentage to 68.8%, while Alsace's percentage is reduced to 31.2%. Of the 200,000 tons of pure potash which are usually absorbed yearly by the American market, the German mines are supplying 131,500 tons and the Alsatian mines 68,500 tons. In case the orders received from America should be above those figures, the same proportion would be maintained. If one party does not supply the quantities ordered, the other party will deliver them, but it will then have to pay, to the first one, 15% of their value. The prices will be fixed on the basis of $27 a ton for potassium-chloride at 80%. In case of a disagreement about prices, a court of arbitration sitting at the Hague is provided for. Both parties will undertake a joint campaign of publicity among American farmers, and it is expected that the sales in 1925 will amount to three million quintals. Publicity expenses will be split in the same proportion as the deliveries.

Can import associations be formed? Cooperative importing on

[2] *Bulletin No. 68*, October, 1924.

the part of competing manufacturers will require special enabling legislation. The decisions of the United States courts in the few cases that have come before them involving cooperative purchasing, and the general attitude of federal authorities toward co-operative buying of domestic supplies by trade associations, indicate rather clearly that import combinations would be held as in restraint of trade. Combinations of competing manufacturers for common purchasing would not only violate the Sherman Act, but also apparently the Section 73 of the Tariff Act of February 12, 1894.[3] Bills are at present before Congress to authorize import buying associations. The Capper Bill[4] would authorize buying combinations, allowing cooperative purchasing, but with qualifications designed to prevent monopoly. It provides that if a combination's imported supply is not sufficient to meet the needs of all its members, the supply shall be prorated according to needs. No profits can be made by the combination. The raw materials are to be sold at cost plus expenses of operation. The associations would be under supervision of the Federal Trade Commission.

Objections to import associations. Over against the advantages claimed for import associations as outlined in the preceding paragraphs may be placed the following considerations:

1. It is questionable if a buyers' combination, if formed, could overcome effectively the control exercised by a monopolistic combination of producers and sellers. The greater power, if they chose to exercise it, probably would lie with the selling combination.

[3] Sec. 73. That every combination, conspiracy, trust, agreement, or contract is hereby declared to be contrary to public policy, illegal, and void, when the same is made by or between two or more persons or corporations either of whom is engaged in importing any article from any foreign country into the United States, and when such combination, conspiracy, trust, agreement, or contract is intended to operate in restraint of lawful trade, or free competition in lawful trade or commerce, or to increase the market prices in any part of the United States of any article or articles imported or intended to be imported into the United States, or of any manufacture into which such imported article enters or is intended to enter. Every person who is or shall hereafter be engaged in the importation of goods or any commodity from any foreign country in violation of this section of this Act, or who shall combine or conspire with another to violate the same, is guilty of a misdemeanor, and, on conviction thereof, in any court of the United States, such person shall be fined in a sum not less than one hundred dollars and not exceeding five thousand dollars, and shall be further punished by imprisonment, in the discretion of the court, for a term not less than three months nor exceeding twelve months.

[4] 68th Congress, 1st Session, S. 2843. See Part II, Chapter X, Problem No. 21.

2. It is improbable that large and experienced purchasers would be willing to pool their interests with all buyers, thus sharing with competitors, large and small, one of the advantages of size and experience.

3. The administration of such a combination in a manner fair and equitable to all consumers, to the public, and to foreign sellers, is a matter of doubt. It is fraught with danger and difficulty.

4. Import combinations run counter to the established policy of free competition and non-restraint of trade, commonly accepted in this country and embodied in the Sherman and Clayton acts. If illegal for domestic purchasing, why should it be legalized for importing? To legalize methods of importing declared illegal in domestic business is sure to lead to international complications. The method of meeting monopolistic combination with combination is commercial warfare, likely to breed trouble between the nationals of different countries. In other words, import combinations are not a remedy for preventing monopolistic combinations of producers; they are likely to be an additional irritant to friendly international commercial relations.

5. It is far from certain that import associations, if formed, would bring about the economies in purchasing anticipated. For many commodities it is at least doubtful if cooperative purchasing would be able to serve its members more effectively and more cheaply than existing private import companies which have developed highly specialized and highly efficient methods of handling imported commodities. A newly formed import association would have to build up from the ground an organization of experts in commodities and markets. Experience and skill in importing specialized raw materials is not easily acquired; and import purchasing requires even a greater degree of specialized knowledge than domestic purchasing. The apparent tendency among consumers of imported raw materials is to establish direct connections with foreign merchants or producers, not by joint purchasing but by independent action. Where direct purchasing is not possible, it is difficult to see wherein an import association can perform the importing functions to better advantage than the established specialized importer.

Cooperation in raw-material importing seems unlikely to de-

velop in any large way, not only because of legal restrictions, but primarily because its inherent advantages to the consuming manufacturers seem relatively small and uncertain.

METHODS OF IMPORTING BY RETAIL STORES

The problem of purchasing manufactured products by retail stores differs from the manufacturer's problem of raw-material purchases principally because, as shown above, the purchase of imported goods for retail distribution requires a much greater degree of personal selection. Department-store importations—including the five-and-ten-cent stores and mail-order houses—are of three chief classes: first, novelty goods; second, style and quality goods; third, standard goods that can be purchased more cheaply abroad than in the domestic market. In many cases, of course, all three factors—style, novelty, and cheapness—may be involved in importing. In all the groups of commodities, personal selection in buying is, of course, an important consideration. For the first two groups, however, it is the dominating factor. High-quality style goods, gift-shop goods, art goods and novelties are purchased without primary reference to cost. The question is whether or not they can be made to appeal to the American consumer. In their purchase, a high degree of skill is required on the part of the buyer both in regard to the intrinsic quality of the goods themselves and as to the appeal they will make to the store's customers. Style, pattern, color, how they will "take," as well as quality, are deciding factors, making personal selection by the expert buyer necessary.

In the case of manufactured goods purchased primarily on a cost basis personal selection is also desirable. Important quantities of cheap goods are imported yearly into the United States, especially from Central Europe and from Japan. Many of these goods are also novelties and require on the part of the buyer the same unerring judgment as to their salability as in the case of goods of the first class mentioned. Many of these goods, however, are staple goods—cooking utensils, cutlery, tools, glassware, chinaware, toys, gloves, hosiery, and the like. Here, personal selection by the expert is necessary in judging quality in relation to cost. Their purchasing can hardly be delegated to others by the responsible department heads of the stores concerned. If

delegated, it must be to specialists in the lines concerned. Furthermore, especially in the purchase of cheap goods for five-and-ten-cent store distribution, every possible economy in buying is necessary. Competition is keen and margins of profit are likely to be small on cheap goods. When purchases are large, distinct savings may be made by direct purchase. Furthermore, direct contact with the foreign factories and merchants is desired on the part of the department-store buyer in order to keep fully abreast of the developments in the creation of new styles and novelties. For style and novelty goods, the ability to "get ahead" of a competitor in obtaining salable goods is one of the first requisites. Personal investigation and closely supervised purchasing are particularly desirable for all such goods.

Department-store purchasing is highly specialized. The specialized buyers of department stores are the department heads. These men and women are responsible for the sale of goods, as well as their purchase. On the one hand, it is their business to interpret the demands of the store's customers and to see that the merchandise of their department is sold; on the other hand, the department heads are responsible for the selection and purchase of goods for their respective departments. They are the store's experts on the various commodities, and because of their knowledge of their lines, their familiarity with the demands of the store's customers, and the need of keeping in closest touch with developments in production of the goods in which they are particularly interested, they are the purchasers both of foreign goods ~~and of~~ domestic. The organization of department-store importing must, therefore, adapt itself to this situation. Whatever method of obtaining foreign goods is adopted, the department specialist must be the responsible purchasing officer for the goods handled in his particular department. Under existing conditions, therefore, if a department store expects adequately to cover its purchasing needs in Europe, it is under the necessity of sending not one but several buyers abroad—men who know the merchandise and are able to buy effectively goods that they believe will sell. For European purchasing this puts great financial burden upon the store. The trip of a buyer to Europe would average at least $2,000 for expenses in addition to his salary. At the same time the department head is absent from the store from four to eight weeks. It is impossible, furthermore, for the buyer to remain

more than a brief period in Europe, and hence stores cannot keep a single buyer constantly in touch with the European market. Since the buying seasons for many classes of goods are contemporaneous, it is necessary to have many department heads absent at the same time. It follows that only in the case of the largest department stores can many buyers be sent abroad. For if a store attempts to combine purchases for several departments in the hands of one department head, his purchases for departments other than his own will likely be unsatisfactory.

Means of buying imported goods by the retailer. Retail stores may employ the following means of making purchases of imported goods:

1. *From the import merchants.* The import merchants are organized to bring in imported manufactured goods. They may make purchases either upon order or as merchants who import and stock for resale. Such merchants maintain buyers abroad, many of them with foreign branch offices. They may be agents or exclusive representatives of foreign manufacturers. Many of them are specialists in certain lines of goods—toys, chinaware, art goods, clothing, dress goods, leather goods, and so forth.

2. *From the New York office of the foreign merchant or manufacturer.* Some of the foreign producers maintain offices in New York for sales to American buyers. Such offices attempt to encourage purchases directly on the part of the department stores, without the use of the middleman either in this country or in Europe. Some of these branches maintain exhibition rooms where samples are on display. A few send salesmen through the country visiting department stores and taking orders.

3. *Through foreign commissionaires.* A commissionaire is a foreign buying agent who maintains offices abroad, acting as the purchasing agent for American department stores. Commissionaires may make direct purchases and forward to the American department stores or they merely assemble samples for American buyers, make contacts for such buyers and in other ways facilitate purchases. Several department stores may cooperate to the extent of using a single commissionaire, so as to secure volume of purchases and economies in the costs of transportation of the assembled goods.

4. *Establishment of own office abroad.* (*a*) Single offices. The importer may establish his own branch buying offices at strategic buying centers in Europe, maintaining an organization for establishing contacts, for buying standard merchandise, and for assembling materials and forwarding them to the United States. Overhead expenses under such an arrangement are usually so large that only those stores doing a very large importing business can afford to establish their own branches. Furthermore, since much of the department-store buying is seasonal, the foreign office during part of the year has little to do. Some department stores maintain their own offices in connection with the offices of foreign commissionaires. (*b*) Cooperative buying offices. Several department stores may establish joint buying offices in the foreign buying centers which perform all the functions mentioned above for each store in the combination. Cooperative buying is usually accomplished by forming a separately incorporated purchasing association in the United States, with branch offices in Europe.

5. *Sending buyers abroad.* A department store may send its buyers abroad periodically without having any established relations with foreign commissionaires. Under this arrangement buyers are able to study at first hand the market conditions but they are greatly handicapped in making contacts and arranging for shipments unless they have had wide experience and have established connections.

6. *Correspondence and cable.* One of the largest retail stores in the United States, specializing in food products, does a direct importing business of large volume exclusively by cable and correspondence. The store does a very high class business and has long been established. The store buys direct from distributors and producers in many centers, has a commissionaire representative in Paris, and employs a forwarding agent for arranging details of transportation. Occasionally the head of the firm or the head of the import department may visit Europe, not primarily for buying but to keep up personal contacts with the European firms with which it deals. The company's long standing relations with the European dealers are largely responsible for the success of this method. Nevertheless, it illustrates the fact that even for quality goods, satisfactory buying can be done without sending buyers abroad.

The usual practice of retail-store buying for those stores whose volume of purchases are sufficiently large has been the periodic visit of buyers to Europe and occasionally to Japan and the Far East. When acting as individual stores, only the large department stores can afford to send a considerable number of buyers; smaller stores must be content with one or two buyers who purchase for several or all departments; and the still smaller stores can buy regularly only from the importers and jobbers. The largest stores may send 20 to 40 buyers abroad each year. The stores which establish permanent European offices generally do so at Paris and at London but occasionally also at other centers. These branch establishments serve as European headquarters for the store's seasonal buyers, arrange in advance of buyers' trips the details of their itinerary, arrange for placing repeat orders and orders for staple lines, attend to the details of assembling and forwarding of merchandise, and in similar ways serve the store's import needs.

COOPERATIVE AND GROUP BUYING

A recent development in department-store buying has been the formation, by groups of department stores, of cooperative buying organizations. This makes possible the reduction in the large overhead of foreign buying by single stores and also enables medium-sized department stores to obtain the benefits of direct buying. Several of these groups of department stores have been formed. They consist usually of one store from each of six to twelve, or more, cities which have united in the formation of a separately incorporated buying organization. Branches in Europe are maintained on a cooperative basis, the expenses being shared generally on a pro rata basis as determined by volume of purchases. Under this arrangement, purchases of staple goods may be made in common, but the individual store continues to send its own buyers to Europe. Much of the expense of office maintenance, investigation, and technical work is lessened for the individual store. Under such cooperative arrangements, many more branches can be established in Europe than could be established by a single store. The fact that the stores in the association are non-competing makes possible effective cooperation. Even under

this scheme, however, small department stores are debarred since the expense may be too great for their participation.

The earliest of the department-store cooperative associations formed was the Retail Research Association. This grew out of the conditions following the war. When the end of the war made it possible for American business houses, particularly the great retail stores, to again place orders in Europe, great difficulties were met by buyers who visited England for the purpose of forming anew the trade connections that had been disrupted by the war. Shortages of raw material were so great and the demands of their local customers so insistent that many British manufacturers who had formerly been glad to get orders from America were forced to decline them. Buyers visited different cities in England, but in few cases were they able to place orders for the goods they sought with any assurance of early deliveries. At that time it was apparent that some better system ought to be devised for bringing buyers and sellers together. Out of this need grew the establishment in London of an office of the Retail Research Association, made up of 17 American department stores. The foreign buying organization of the association is the Associated Merchandising Corporation. This buying corporation also has exclusive arrangements with a large European commissionaire.

Another association consists of 12 department stores which maintain buying offices in Paris, London, Berlin, Frankfort, Vienna, Brussels, and Florence. Outside of these offices, and for the Far East, the association has exclusive arrangements with a European commissionaire with world-wide connections. Far-Eastern purchases are through the commissionaire organization.[5]

[5] The most extensive development of department-store cooperative purchasing has taken place in Germany. According to the American Commercial Attaché, Douglas Miller, the largest combine of this kind, the "Grohag" (*Grosshandelsgesellschaft m.b.H.*) has a membership of 400 German department stores and has formed connections with similar groups of department stores in France and in England. The activities of the "Grohag" consist not only of the maintenance of purchasing offices in the important trading centers of Germany and in purchasing arrangements with the French and English groups but also in maintaining sample rooms in several purchasing centers in Germany, in the manufacturing of certain staple lines, especially textiles, for members of the association, in financing both domestic and foreign transactions of its members, and in selling German merchandise to the French and German groups. The association is reported as being very successful in its operations within Germany and in its relationships with the foreign department-store groups in France and England.

The "Magasins Réunis," the French department-store purchasing organization, has about 250 members. In 1925 it did a gross volume of business of 300,000,000 francs.

Group buying. More recently, certain of the non-competing department stores, generally members of a buying association, have developed the method of "group buying." The buyers of the same departments of a group of stores, say the toy department buyers, may travel together and place their orders jointly with the foreign manufacturer. By group buying it may be possible for a store to reduce the number of buyers sent abroad, since a single buyer may act for more than one department under the guidance of the specialists in the group. The principal advantage, however, is in the savings that may be accomplished by purchasing in volume direct from manufacturers and also savings in the ordinary import overhead. Such buyers may contract for goods to be manufactured to order at the first cost c.i.f. New York plus a commission.

DEPARTMENT-STORE PURCHASING AGENTS

In response to the need for serving the small, as well as the large, department store, a still more recent method of department-store purchasing has been developed. One such plan was mentioned in Chapter III, page 54. This plan is, in some respects, an elaboration and extension of the commissionaire method. It has been successfully put into operation by at least two or three American companies. One of these companies has established a department-store purchasing agency in Europe, with headquarters in Paris. The organization enters into contract with American department stores, one only from one city, by which it becomes the exclusive purchasing agent for the stores in Europe. The European office of the organization carries on its letterhead and office sign the name of each department store that it represents and furnishes facilities for the store's representatives when visiting Europe. The purchasing office in Paris maintains branches in Belfast, Brussels, Frankfort, Vienna, Berlin, Gablonz, and Nuremburg, and freight assembly and forwarding offices in Antwerp, Le Havre, Bremen, and Hamburg. It maintains a force of specialized native buyers who have been trained in American stores to visit the European manufacturers and obtain quotations and samples.

The office is prepared to make, at any time, purchases for the stores it represents, but the unique feature of the arrangement is the holding, twice a year in New York, of an exhibition of the samples obtained in Europe. These samples are conveniently arranged for examination, and marked with landed New York prices in dollars. That is, cost, transportation, tariffs, exchange, and all other expenses are computed in the quotations. Buyers from the American department stores attending these exhibitions are able to place orders on the basis of the samples, with prices definitely quoted in dollars. Many advantages are claimed for this method. Large purchases give the company the benefit of the best discounts and cheapest transportation. By assembling tens of thousands of samples, chosen by skilled buyers from all parts of Europe, the European market, in a sense, is brought to the buyers in New York. The plan makes it possible for even the small department store to share in many of the benefits of direct purchasing, although it is unnecessary for the buyer to leave the United States. It gives the store buyer a wider range of choice than he might be able to obtain if he went abroad himself; it gives him constant, twelve-month representation; it saves the store the heavy expenses of buyers' trips to Europe, as well as the time they are necessarily away from the active direction of their departments. For the large department store, it does not give the opportunity for exclusive buying; but for the medium-sized and small store it probably furnishes opportunities that otherwise would be beyond its reach.

The internal organization for foreign purchasing in retail stores. There are two general methods employed by retail stores for handling the peculiar and distinctive problems of imported purchases. Several of the stores have a separate import department, or as it is usually called, a "foreign department." Such a department may be an administrative and accounting organization or it may be a buying organization. The foreign department oversees all the details of foreign buying, supervises buyers' trips, brings in the goods through customs, keeps records of all imported merchandise in the store, arranges for payments, and so forth. The actual purchasing, however, is a function of the merchandise departments of the stores. In some cases the foreign department functions as a middleman for the store, receiving the imported goods, computing landed costs in dollars, and billing the goods to the merchandise departments of the store. In such a case, the department is expected to show a profit on its business.

Other stores have no distinct foreign or import department, but the established departments perform each of the services for which they are organized. A separate division for handling imports may be established in the department, but it is not separated from it. The finance department handles all questions of exchange and foreign payments, the entry of goods, and marking and delivery to the store's several merchandise departments by the same organization as that which handles the domestic purchases. The purchase of foreign goods is dovetailed with the purchase of domestic goods. The import department is "built in," not a separate and independent structure. There are in the personnel of the organization those competent to handle the technical details of importing, such as a custom-house clerk, but no separate import department as such.

DISTRIBUTION OF IMPORTED PRODUCTS IN THE UNITED STATES

The method of sale and distribution in the United States of imported products by the importer is primarily a problem in domestic marketing and sales management, and a problem in exporting if the goods are re-exported to foreign countries. The method of redistribution and the type of organization required, however, are problems in policy that the importer must meet.

The importer may redistribute his products through the following channels: (1) direct to the consumer; (2) direct to the retailer; (3) to the jobber or wholesaler; (4) to the export merchant or commission house.

The distribution through these channels may be effected by one or more of the following methods: (1) by brokers; (2) by exclusive sales agents in selected market centers in the United States; (3) by salesmen; (4) by sales and display rooms in New York or other buying centers; (5) by permanent branch selling offices; (6) by correspondence; (7) by advertising and catalogs.

Sales through brokers may be the exclusive method used by importers of certain raw materials and foods. The importer's activities and knowledge are confined to the specialized business of importing; contacts are left in the hands of the broker, who is often better able to make sales than the importer. As described in a preceding chapter, most of the cocoa beans imported are sold in this way.

Other importers sell through exclusive representatives appointed to handle specified territory in the United States or Canada. These agents may stock and resell, or sell only upon order. By such an arrangement, the importer is not required to form an elaborate organization for selling.

Many importers, acting as wholesale distributors, employ domestic salesmen, or maintain sales branches in strategic centers in the United States. The use of display rooms in New York, Chicago, or other markets is sometimes resorted to. Some importers may have periodic sample displays; others maintain permanent exhibition or sample rooms. Some of the New York importing wholesalers have permanent displays occupying many floors of large office buildings to which come buyers from various parts of the country and from foreign countries.

Sales may be effected in the case of some commodities by correspondence or catalogs only. This may be the case where an old company has established a reputation after years of service, and personal selection of goods is not necessary. Even sampling by mail may be carried on. A wool merchant has recently undertaken to develop sales of wool to mills by mail samples and mail orders exclusively.

It is evident that the sale of imported products, whether unmanufactured or manufactured, presents few problems differing from the distribution of domestic merchandise. Many domestic wholesalers and jobbers are also importers. The chief question of policy of concern to the specialized importers is to what extent their activities should be confined to the strictly importing functions, and to what degree they should also develop their own organization for distribution.

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VI

PLACING IMPORT ORDERS: THE PURCHASE CONTRACT

In the preceding chapters, the functions, organization, and methods of importing have been discussed. This chapter deals with the problems connected with the actual placing of orders in foreign countries. These problems may be grouped under the following heads:

1. Sources of imported products
2. Time of purchase
3. Size of purchase
4. Price quotations and terms of payment
5. The purchase contract
6. Technical procedure in placing import orders

SOURCES OF IMPORTED PRODUCTS

In what foreign markets shall purchases at any given time be made? Shall many sources be sought, or only the leading market centers? Shall new sources be developed by the importer? Shall the importer go direct to the producing centers or buy through the large organized collecting and marketing centers or entrepôts?

The country or market in which purchases of any given product will be made is determined by one or several of the following factors:

a) Cost price of the merchandise
b) Quantity available
c) Quality or grade of products produced
d) Reputation of product
e) Organization of the market, including reliability of sellers, financing facilities, transportation facilities, and so forth
f) Ease of access—affecting
  (1) time
  (2) cost
g) Economic and political conditions

It is obvious that when all other factors are equal, the purchase price will be the decisive factor in determining where purchases

will be made. "All other factors," however, are rarely equal. Prices may be cheaper in a given market, but qualities of products may not be dependable; there may be uncertainty as to regularity of delivery; exchange fluctuations in the country may give too great a speculative nature to the transaction; satisfactory terms of payment may not be arranged. These and other factors of similar nature mean that frequently price is not the only, or perhaps not even the chief, consideration in determining the source of purchase.

The quantity of goods available is an important consideration, especially for bulky raw materials. Such materials often move in shipload lots. If quantities are not procurable in full cargo lots, increased transportation charges on small shipments may make the supply unavailable. Furthermore, if supplies are small, it may be uneconomic to develop dock and handling facilities for the effective handling of the products. If supplies are large, so that future as well as present needs can be met, not only will adequate transportation facilities be developed, but port and port-handling facilities may be provided by the producer or by the importer so as to further cheapen and facilitate shipments. For example, the large deposits of iron ore near Coquimbo, Chile, have made it possible for the Bethlehem Steel Company to provide a special fleet of ore-carrying boats and to improve docking facilities in Chile for cheap and rapid handling of the ore for shipment via the Panama Canal to the United States. On the contrary, the limited supply of iron ore, although very rich, near the mouth of the Orinoco River in Venezuela is one reason why that section was abandoned as a source of imported iron ore. The present limited supplies of fruits available for export from the River Plate region limit the development of that trade, since special shipping facilities must be supplied for perishable fruit shipments. Ultimately this may be an important trade, since fruits are ready for shipment here at the off-season in North Temperate Zone countries. Even for high-valued manufactured goods, the quantity available is important. Large purchases not only effect savings in transportation costs, but buyer's expenses are lessened since a limited territory only has to be covered by a buyer to supply a company's needs; and the facilities for financing, buying, assembling, and forwarding are all likely to be better and cheaper in such a market.

Closely related to available amounts of goods is the question of regularity of supplies. Uncertain climatic conditions, for example, may make a region not dependable as a place of purchase, season after season. Large crops for a series of years may be followed by a series of crop failures. Manifestly, such a region cannot be depended upon as a continuous source of supplies, and facilities for production, marketing, and transportation are less likely to be perfected.

The quality or grade of the commodity, and the degree of dependability that can be placed upon securing the desired grades, are considerations that often outweigh price advantage. This applies to raw materials as well as to foods and manufactured products. Qualities of raw materials and foods vary from producing center to producing center, partly because of climatic or soil conditions that give peculiar qualities to the product, and partly because of differences in the care and skill used in producing and preparing the products for market. Brazilian goat skins, for example, possess qualities differing from goat skins from the Mediterranean regions of Europe. Coffee grown on the plateaus of Colombia differs from coffee grown in Brazil, and both differ from Far-Eastern coffees. Brazilian crude rubber differs from plantation rubber largely as a result of methods of collection and curing. French woolen piece goods possess peculiarities that distinguish them from English woolens. Slight variations, understood fully only by the industries concerned, may be of enormous consequence in these days of highly specialized and highly competitive manufacturing and merchandising. Selection of the source of purchase is, therefore, often of great importance because of the influence of source on peculiar qualities of the goods.

Reputation possessed by the goods from some markets is frequently a factor of importance. Irrespective of cost, or even of quality, the fact of reputation for quality or style or dependability sends the buyer to one market rather than to another. "Scotch tweeds," "English worsteds," "Spanish olives," "French gloves," "Irish linens," "Swedish iron," "Ceylon teas," "Zanzibar cloves," "Mexican vanilla," are all terms illustrative of the influence of reputation, built originally upon quality, and persistent in their influence upon purchasing. To go to new sources for such products, even when the same quality is assured, is often an experiment not to be entered upon without careful consideration either

by the manufacturer or the merchant. Even when the manufacturer is assured that domestic raw materials are not inferior, he may insist on the imported product for the effect it has on sales. For instance, a maker of cutlery may find it a selling point if he can advertise his goods as made of "Sheffield steel." This influence can, of course, be broken down in time if it is not based upon real superiority. For example, the development of the clove industry in Madagascar is supplanting Zanzibar cloves, since the quality of Madagascar cloves is being demonstrated as not inferior. When first introduced, however, Madagascar cloves were not favored in the American market and sold at 2 cents less per pound. Rubber from the Far East, at first handicapped by the reputation of Brazilian "Para" rubber, is now sought for its quality as well as for its cheapness.

Still another factor influencing choice of market in which to purchase is connected with the organization and nature of the market. Many marketing centers have developed in which special facilities for purchases have been perfected. These entrepôts, or collecting and marketing centers, have not only come to have a developed organization for buying and selling, but perform banking and financing services, warehousing, freight forwarding, insurance, and other services as well. Many of the largest of these marketing centers, like London, Amsterdam, and Hamburg, are collecting centers near the centers of consumption, far from the producing regions of the products sold. Others, but smaller markets, have developed near the centers of production, as, for example, the rubber market in Singapore, or the wool market in Sydney. The advantages of these marketing centers are so great that, even in spite of the growth of direct transportation and direct trading, they persist in drawing buyers. Nearly half of the world's wool is still marketed in England; most of the East Indian tobacco, at Amsterdam; before the war, African palm oil was marketed in Hamburg, and so on, through many products. The displacement of European entrepôt trade that took place during, and as a result of, the war apparently was not a permanent shifting to direct trade. The entrepôt and transshipment trade has markedly developed again in many of the old markets. The advantages of purchase in such organized markets may far outweigh any small cost advantages to be obtained by going direct to the producing centers; but generally there is a cost advantage

in buying in the organized market centers, as well as service advantages and other conveniences.

Nevertheless, as transportation and the means of communication by telegraph, cable, and radio have developed, old market centers are changing, new ones are developing, and opportunities for direct purchasing in producing centers are more frequent. Rubber, long sold principally by auction in London, can now be bought in the Singapore and Colombo markets. Shall the importer, therefore, arrange to buy through the Singapore market? Tea, long purchased only through the London market, can now also be purchased at the Ceylon auctions and shipped directly. It does not follow, however, that the tea importer will no longer buy in London. There are often disadvantages of buying in a new, or not well-organized, market that outweigh any possible advantages obtainable in prices, or in the opportunities for direct relations with producers. The firm that depends on one source of supply, even if that source appears adequate for present needs, is subject to many risks. When possible, several alternative sources are desirable as an element of safety for the future—a means of insurance for certain and continuous supplies at all times.

Lastly, political and economic conditions within a country may affect the buying policy. If political disturbances or uncertainties are such as to threaten regularity of deliveries or to bring about changes in quality, it may be unwise to continue direct purchasing, even if other conditions remain favorable. The political disturbances in Yucatan, for example, together with the attempt at control of marketing sisal by the Mexican Government, have raised seriously the question on the part of American consumers of sisal as to the development of new sources of supply outside of Yucatan. The economic conditions surrounding coffee production in such countries as Colombia may make it all but impossible for the green coffee merchant to buy direct in that market. The commission houses, by close contact through essentially a barter business, may be best suited to handle coffee there, and direct purchasing may be inadvisable. In Brazil, however, it is not impossible for the coffee merchant or roaster to go direct to the large producers. The disturbed political conditions in Russia or in China obviously are factors influencing buying policies in those regions.

TIME OF PURCHASE

The time for placing import orders may be influenced by seasonal fluctuations in production or in demand, by price variations, by competition, by exchange situations, by prospects of tariff changes, and by other reasons. For some products, particularly agricultural products, the buying season may be determined by seasonal production. For perishable products seasonal purchasing is, of course, imperative, and for many products purchases in the primary markets must be made in response to this factor. Frequently the buying season will last but a few weeks. The quality of goods may also be influenced by seasonal fluctuations, making it desirable, in some cases, to buy the early crop, and at other times the later harvest. Mastery of such details may be essential in determining time of purchase. For clothing, piece goods, and most department-store articles, there is also a distinct buying season based partly on seasonal demands, partly on custom. In addition to seasonal supply or demand, there are other factors, less periodic in their operation, that influence buying policy. Such, for example, are exchange and price fluctuations. What influence shall low exchange have on purchasing, or on anticipated fluctuations in prices? This raises the question of speculation on exchange and prices and the policy of modifying usual buying policy to meet anticipated situations. In some markets, exchange varies with considerable seasonal regularity, in response to trade. It has been reported that Colombian exchange varies with the flood or low-water stages of the Magdalena River through the influence of the river on exports of coffee. Post-war fluctuations in exchange and prices, resulting from world-wide economic disturbance, have been without precedent and offer problems complex and difficult of solution in connection with time of purchase, as well as with price determination.

Prospects of tariff revisions, or other governmental trade regulations, either in this country or in foreign countries, also raise questions as to time of purchase. Shall purchases be increased in anticipation of increased duties on the part of a new Congress, or in the face of proposed regulations, such as coffee valorization in Brazil, or restriction of rubber production in the East Indies? Is it practical for a department store to attempt to distribute buying throughout the year, rather than to follow usual custom

and send all buyers to the European market at one time, thus congesting the foreign department with work for a short period, and depriving the store of most of its department heads at the same time? These are some of the problems connected with time of purchase of imported goods.

The question also may arise as to whether purchases shall be deferred to near the time of need, or bought far in advance of needs. Some products can be bought in the local spot market for immediate delivery; other goods may be purchased "afloat" from importing merchants, deliveries to be made on arrival of vessel; goods may be purchased for future delivery either from the importing merchant or the foreign merchant; or goods may be purchased in large quantities far in advance of needs and held in bonded warehouses or in stock until time for consumption.

SIZE OF PURCHASE

The size of orders may be closely related to time of purchase, particularly when it relates to buying a year's supply at a given buying season, thus taking advantage of apparent price advantages. Seasonal and other periodic fluctuations in supply may be of much importance in determining the time and size of purchases. The purchase of supplies from India, for example, may bear a direct relation to the monsoon, the greatest single factor in India's production. Purchasers in the Indian market will do well constantly to study the influence of the monsoon. Again, supplies and hence prices of some commodities are closely interrelated. High prices for rubber in the Dutch East Indies and Malaya draw native producers from spice production to rubber and may result ultimately in shortages and high prices in spices. A fall in rubber prices, on the contrary, may result in decreased prices for spices. Large purchases may involve questions of storage and warehousing, of larger capital investment, of assurance of adequate supply and proper qualities, of risk from price fluctuation or from deterioration of product. Manifestly policies as to size of purchase depend on many factors: the commodity; the market; the size and financial resources of the purchaser; the question of price or discount advantages that may or may not go with large orders; savings to be made in transportation costs on large shipments; the degree to which the purchasers may care

to speculate on future prices; and the facilities for hedging purchases in an organized market. Policies differ among successful manufacturers as to size of purchase. In general, speculative risk involved in large purchases should not be assumed by the manufacturers. Purchasing far enough in advance to assure adequate supplies should be sought, but not large-scale speculative purchasing.

COSTS OF IMPORTED PRODUCTS

The cost of a foreign product landed in the United States, frequently referred to as "landed cost," is made up of some or all of the following elements:

1. Original price paid in the foreign market, or "first cost";
2. Packing charges;
3. Brokerage, commissions, and other buying expenses, as cables and buyer's expenses;
4. Transportation charges, including insurance, landing and docking charges, warehousing charges;
5. Export taxes, consular fees, and other governmental charges in the foreign country;
6. Tariffs, customs and port charges at the port of entry;
7. Foreign-exchange costs;
8. Financing costs, such as, for instance, bankers' fees, interest, discounts, and commissions;
9. Overhead costs.

When a consumer purchases from an importer in the United States, the price quoted by the importer includes all of the above plus a profit added by the importer. The quotations are also in dollars, and the transaction differs in no way from a similar buying transaction in domestic trade. When, however, the importer buys in the foreign market, he encounters many problems in estimating the actual landed cost, difficulties not present in a domestic transaction. This has been particularly true in recent years when exchange fluctuations have been marked, foreign currency depreciations the rule, prices of most commodities unstable and widely fluctuating, ocean steamship rates uncertain, government tariff policies unsettled and changing. These conditions have made foreign purchasing particularly difficult, and have emphasized the importance of formulating wise policies in respect to purchase prices and resale prices of imported goods. This is even more apparent when it is remembered that imported goods

often must be ordered months in advance of their arrival in this country. The determination of an accurate landed cost of imported merchandise is likely to be as involved as it is important.[1]

HEDGING

In the purchase of some commodities, it is possible for the purchaser to protect himself against risk of price fluctuations by hedging operations. Under such an arrangement the purchaser buys or sells futures in the commodity on which he is seeking protection against price variations. A manufacturer, for example, who will require raw material in three months' time may purchase his requirements at once, or at "spot" prices, for storage until needed. In order to protect himself against a fall in prices, he may at the same time sell a "future" contract for delivery of an equal amount of the raw materials at the end of three months. If, in the meantime, prices fall, his losses on value of stock on hand will be made up in whole or in part by profits on the future transactions, for he can then buy in the spot market at prices below his future contract and thus make a substantial profit on the future contract. If prices rise, his gains on the value of his stock inventory are balanced by losses on the settlement of the future contract. The manufacturer is thus protected from large risks in price fluctuations. Such hedging operations are limited, however, to those commodities and markets in which there is a well-organized futures market, and on commodities in which there is a generally fixed relation between "spot" and "future" prices.

PRICE QUOTATIONS 4

The price quoted by the foreign seller may be based upon a variety of factors and may take a variety of forms. It is not the purpose here to discuss the economic factors that determine price, but rather to point out the meaning of price quotations in their relation to an importer's policies in regard to purchasing. If the price quoted by the foreign seller is the factory price stated in the currency of the exporter's country and payable cash in advance, the buyer bears all the risks of fluctuations in the various

[1] See "Calculating Landed Cost of Imported Merchandise," G. L. Abramovitz, *Bulletin National Retail Dry Goods Association*, September, 1926.

elements that determine the landed costs. If, on the other hand, quotations are on the goods delivered in the buyer's country, in the currency of his country, and payable after delivery, practically all risks are borne by the seller. Between these two extremes the risks of fluctuations may be divided in varying proportions between the exporter and the importer. If the price quoted is upon the goods landed in the United States, the price must, of course, include all the intermediate charges, together with compensation to the seller for the additional risks and responsibilities he assumes.

Price quotations in the import trade, as in domestic trade, are usually stated in terms of place of delivery, or place to which transportation charges are paid. Thus, the price may be "f.o.b. London" or "c.i.f. Boston." The other factors mentioned in the preceding section, of course, enter into the determination of the price that is quoted, and sometimes the quotations are stated so as to include factors other than place of delivery, such as commissions or exchange. For example, a quotation may read "c.i.f. & e." (exchange). Based upon place of delivery, price quotations may range from a quotation on the goods at the foreign factory or warehouse to a quotation on the goods delivered at the store or warehouse of the buyer in this country. In the first extreme the buyer must undergo the trouble and expense of transporting the goods from the foreign source to his place of business; in the second extreme, the seller assumes all these obligations, including bringing the goods through customs. Rarely are quotations based on either of these two extremes. The most common quotations are f.o.b. port of shipment or c.i.f. port of arrival. Quotations are, however, frequently made "c. & f. port of arrival," "f.a.s. port of shipment," "ex-dock, port of arrival."

The following list gives the range of quotations and the chief types used in import transactions:

1. *"Ex warehouse" or "Loco."* This gives the price of the goods at the place of purchase. Sometimes referred to as "first cost." It is very rarely used.

2. *"F.o.b railway cars, inland city of shipment."* In a "free on board" quotation of this type, the price is on the goods placed aboard cars ready for shipment at the exporter's city. In England this quotation is called "f.o.r." (free on rail). "F.o.b" in British practice almost invariably means "f.o.b. ocean vessel, port of shipment."

3. *"F.o.b. cars, port of shipment."* The seller places goods aboard cars and arranges for and pays freight to the port of shipment. The quotation, therefore, includes these charges.

4. *"F.a.s., vessel."* In a "free along side" shipment, the seller is responsible for seeing that the goods are placed within reach of the ship's tackle, either on the docks or in lighters alongside.

5. *"F.o.b. vessel, port of shipment."* In this case the goods are actually loaded aboard the ocean-going vessel ready for transportation overseas.

6. *"C. & f., port of arrival."* If a quotation is "cost and freight," the seller not only places the goods aboard the ship as in (5), but he pays the ocean freight to the port of destination and includes such charges in his quotation.

7. *"C.i.f., port of arrival.'* In addition to freight, the shipper in a "cost, insurance, freight" quotation arranges and pays for marine insurance. All charges are thus included in the price up to the arrival of the goods at the port of destination.

8. *"Ex-dock, port of arrival."* As the name indicates, an "ex-dock" quotation means that the seller's price includes all charges until goods are actually landed on the dock in the importer's country. This would include port and landing charges, if any; lighterage; extra costs in unloading from the vessel's hold. It might or might not include duty. Sometimes the terms are "ex bonded warehouse," in which case the importer takes delivery from the warehouse, after he has paid the duty.

9. "Delivered," "Free," or "Franco." Such a quotation would include all costs of the goods delivered at the buyer's place of business.

The above is only a partial list of the types of quotations that may be made. Use of some of these terms has frequently led to misunderstandings, since they have been used in different countries with different meanings. Care must be taken in their employment. The fact that exact definitions for many of the terms have been established and recommended for use by several American trade associations does not mean that these definitions can be relied upon for quotations made by foreign sellers to American buyers.[1] British practice, in particular, differs in certain respects from the American definitions.

The price quotation that will be used in an import transaction depends upon many factors. Often it is determined by the custom of the particular trade or market in which the business is done. In such cases, certain methods are almost invariably followed. In other trades, the kind of quotation used may depend on the condition of the ocean freight market, the situation in

[1] See *American Foreign Trade Definitions*, a booklet issued by the National Foreign Trade Council, New York.

the international exchanges, the nature of the importer's organization and his ability to arrange the details of shipping.

Prices quoted may be definite, that is, a specific price is quoted on a specific commodity or grade. Sometimes a base price is established for a specified quality and provision made to adjust the actual price to be paid in accordance with variations in the grades delivered compared to the basic grade. That is, the price is based on quality. For example, iron-ore quotations may be based on the iron content of the ore, raw sugar prices on polariscope tests, grain prices on a certain standard type.

On the other hand, no definite price may be stated, but the price based on (*a*) market prices at the time of delivery, that is, the prevailing prices in a given market for the specified quality; (*b*) average prices at a given time for all qualities, as, for example, the price of silk cocoons in Italy; [3] (*c*) an average price for a preceding period, such as the price of certain metals in Continental Europe which were based on average prices of the London Metal Exchange during the month preceding delivery; [4] (*d*) "cost plus," that is, the actual first cost plus a certain agreed-upon percentage. This latter method has been used for newly exploited products in a region commercially undeveloped.

Prices may also be based on quantity, that is, prices may be "gross" or "net," according as allowance is made for tare,[5] or the price may take into consideration "tolerance" or draft." These latter are quantity or weight guaranties by which the foreign seller relieves the buyer of the risk of shortage during transportation. For example, in the importations of skins from Argentina it is customary to compute payments on landed or arrival weights rather than shipping weights, since skins lose in weight during shipment. In coal shipments there is always some loss in weight due to the formation of dust; hence the practice of adding a percentage overweight to the invoice weight.[6]

Care is needed in international trade in specifying the quantity units in which quotations are made. A hundred may be, as in the lumber trade in London, a standard "hundred" of 120 pieces.

[3] Wolfe, *Theory and Practice of International Commerce*, p. 215. "Silk cocoons are bought on the basis of averaging the prices prevailing at the time of shipment."

[4] *Ibid.*, p. 215.

[5] There are many kinds of tare—"actual tare," "net tare," "average tare," "customary tare," "customs tare," and so forth. See Wolfe, *opus cit.*, p. 221.

[6] Maughan, *Trade Term Definitions*, p. 136, and Wolfe, *opus cit.*, p. 221.

A ton may be a "long ton," a "short ton," or a "metric ton." A gallon may be a "standard gallon" or an "imperial gallon," and so on.

CURRENCY OF QUOTATIONS

In periods of depreciating exchanges and currencies, the currency specified in the quotation is of much importance. The quotation may be in:

1. *Currency of the exporter's country.* Since this puts the exchange risk on the buyer, such quotations tend to be lower than when the seller bears the risk. The importer may, to a certain extent and in some markets, protect himself against exchange fluctuations by the purchase of future exchange. In many cases, however, such protection is not possible. Foreign currency quotations have been usual in raw-material imports.

2. *Currency of the importer's country.* Since the seller bears the exchange risk under such quotations, it is to be expected that the price would include the cost of such risk. For goods that are highly competitive in the American market, as are many manufactured goods, quotations are frequently made in dollars. In countries with highly unstable currencies, dollar quotations have been used even where pre-war custom favored other currencies. Since the war, dollar quotations have been a growing practice. The buyer and seller may agree on a fixed rate of exchange at the time the quotation is made.

3. *Currency of a third country.* In many commodities custom has established the practice of making quotations in the currency of a third country, usually sterling. For example, nitrate of soda in Chile is almost invariably sold in pounds sterling. In addition to custom, and often accounting for the custom originally, banking and financial facilities of a third country make the use of third country quotations necessary or desirable. This is illustrated in the case of wool imports from Australia which are almost always in sterling. The need of quotations in a staple currency is a potent reason for using a third currency. This, of course, would not apply to dollar quotations at the present time.

4. *Quotations in terms of a second commodity.* A barter trade, such as is implied by this method, is extremely rare. During the post-war period in Central and Southeastern Europe barter in

modified form was used, but only in extremely exceptional circumstances are quotations actually made in terms of commodities.

TIME OF PAYMENT

In addition to the factors discussed in the preceding sections, the price quotation takes into consideration the time payment is due. If the foreign exporter grants long-time credits, he must make sufficient allowance in the price quoted for the additional costs and risks involved. The following are the common terms of payment as influenced by the time of settlement:

I. CASH TERMS:

1. *"Cash with order."* That is, payment is required in advance of shipment. No risk whatever is carried by the seller in this case.

2. *"Cash against documents."* That is, payment is due at time of shipment from the exporter's country, generally upon delivery of the bill of lading and other documents showing that shipment has been effected.

3. *"Cash against delivery"* or *"Documents against payment."* Here payment is required at time of delivery in the importer's country, or at the time the bill of lading and other documents are presented. This time payment, of course, involves delayed receipt of payment on the part of the importer, equal to the length of time required for the goods or the documents to reach the importer's country, except as the exporter may draw and discount drafts at his bank, under conditions previously arranged.

4. *"Net cash," "prompt cash."* Net cash may mean payment within a few days—five or ten—after delivery. Prompt cash generally means payment within a day or two, according to commercial usage in the market.

II. FUTURE PAYMENT TERMS:

1. *"30 days net," "60 days net," and so forth.* The price is based upon payment without discount at the end of the time specified. Discounts often are allowed if payment is made on delivery or within a specified shorter period.

2. *Time drafts,* payable 30, 60, 90, and so forth, days after date of invoice or date of acceptance.

3. *Combination terms.* For example, payment may be required one-third on order, one-third on delivery, one-third at a future period.

CREDIT TERMS

In all of the above methods, except "cash with order," the importer may be required to arrange, through letters of credit or other means, security that the payments will be made. The usual method of giving security is through use of the bill of exchange and the letter of credit which defines the terms under which the drafts are to be drawn and paid. The granting of such credits is based upon the documentary evidences of shipment of the goods furnished by the bill of lading, and the acknowledgment of the indebtedness by the buyer or his bank as evidenced by acceptance of the drafts drawn. The various types of documentary credits used in importing will be discussed in Chapter VII. Terms of credit are included in the purchase contract and the type of credit will, of course, influence the price quotation. Credits may be granted without any documentary security, as in the case of "open book accounts." While such an arrangement is highly favorable to the importer, it leaves the seller unprotected and its use in international trade has greatly declined. The importer will usually be required to arrange for suitable credit security.

TECHNICAL PROCEDURE IN PLACING IMPORT ORDERS

In placing an import order, the following steps may be followed:

1. A letter or cable is sent by the importer to the foreign seller asking quotation on specified goods, or offering to purchase goods specified at a stated price. The latter is a "firm offer to buy;" that is, if the offer is accepted by the seller, the buyer is committed to the transaction.

2. A quotation is made by the seller to the buyer, or the buyer accepts the price terms proposed by the seller. Quotations tendered by the seller are usually "firm;" that is, if they are accepted by the buyer, the transaction is binding.

3. "Firm order" by letter or cable from the buyer, on basis of the quotation made, or a letter or cable confirming the original sale. The above assumes that the buyer initiates the transaction.

The seller, of course, may initiate the bargaining by making an offer to the buyer, or a request for tenders from the importer for goods the seller specifies as for sale.

The technical steps involved in actually placing an order for imported goods, and the nature of the contract finally entered into between the buyer and seller, vary with the commodity, the market, the experience of the buyer and seller, and with habits of the individual importer or exporter. There is no single and invariable order of procedure. The contract may be of the most informal nature, consisting merely of an exchange of cables or letters; or it may be a comprehensive document, formally witnessed and setting forth in great detail all the conditions involved in the purchase and the performance of the terms of the contract. In some trades and among some buyers and sellers printed forms are used in all the steps leading up to the actual purchase and delivery of the goods. In other cases, the negotiations are entirely informal.

The following considerations, however, need to be kept in mind in placing import orders: [7]

1. The order should be specific and exact in its descriptive details. Additional correspondence to clarify an order may consume weeks of time in trade with a distant country; cables are expensive; the return of goods once received is often impossible. Exactness also will lessen or prevent misunderstandings and litigation.

2. Directions for marking and packing should be clearly stated in the import order to facilitate shipment, transshipment, delivery, and sampling. Packing and marking packages should attain the following results:

a) Secure safety in reference to the dangers of ocean and rail transportation, including pilferage;

b) Make possible minimum freight and insurance rates;

c) Facilitate sampling and repacking at port;

d) Marks should be such as to make the package clearly distinguishable on the dock, and to enable the importer or his agent to pick out any particular package for delivery or transshipment.[8]

[7] See Stern, *Importing*, chap. iii.

[8] See Chapter VIII; also, Butterbaugh, *Principles of Importing*, pp. 64-70.

3. Specifications in reference to tariff classifications should be explicit. Slight changes in specifications may be sufficient to put an import shipment into a lower tariff classification and at the same time not interfere with the selling quality of the goods. Such changes may be perfectly legitimate methods of effecting economies, although at times the practice may degenerate into a mere conflict of wits between the importer and the appraisal officers of the Customs Service. Tariff classifications are exceedingly detailed. For example, the presence or absence of a slight decoration or a slightly greater or less proportion of brass trimmings on an article of import may add to or reduce the duty on a commodity very materially. Eternal vigilance and intimate knowledge of the tariff and customs procedure are, in many cases, the requisites for securing the most favorable classifications. Forethought at the time of placing the order may result in much saving in duties on certain types of imports (see Chapter VIII).

THE PURCHASE CONTRACT

The forms and terms of contracts finally consummated in making import purchases assume great variety, even in a single trade. The following are four forms used in the spice trade:

CONTRACT I

New York
October 25, 1925

Sold by *McDuffee & Co.*
to *Messrs. Jones & Co., Boston*................

Article....*Zanzibar Cloves*..............................

Quantity, About....*One hundred bales*....................

Quality....*Fair average quality of the season*................

Approval....*Quality to be approved before removal from dock*..

Price....*Thirty-five cents per pound f.o.b. New York*..........

Shipment from....*Zanzibar*..............................

By steamer or steamers during....*December/January/February 1925-26*..

Direct or indirect to....*New York*........................

Payment to be made within 7 days from date of delivery in New York, less ½ of 1%, or within 30 days without discount. Payable in gold, or its equivalent in New York funds.

Weights....*New York re-weights*..........................

Tares......*Actual average*...............................

Insurance. Marine insurance, covered by sellers; sound and damaged to be taken but Underwriters' allowances to revert to buyers.

Change of import duty for account of buyers.

Sold without responsibility for delays caused by war, blockades, revolutions, strikes, or any other unavoidable interruptions.

If all or any portion of the delivery against this contract should be detained on arrival by the United States Department of Agriculture, such portion so detained to be canceled and to apply against delivery.

This contract shall not be void on account of inferiority of quality, but allowance is to be made—if inferiority is shown—to be decided by arbitration in the usual way, which arbitration shall be final and binding on both parties.

Buyer's Acceptance	Broker	Seller's Acceptance
		McDuffee & Co.
........Jones & Co.	....	.....by R. L. Adams
Signature	*Signature*	*Signature*

CONTRACT II

New York,....*April 7, 1925*

No....*711*........

Sold by Messrs....*Volkert Bros*.........

To:....*Jones & Co., Boston, Mass*......

Quantity:..*Ten (10) tons of 2,240 lbs. each*...5% more or less.

Merchandise: *Cochin Finger Turmeric*

fair average quality of the season at time and place of shipment.

Price: *at Nine and sixty-five hundredth (9.65) cents per lb.*

Weights: Boston landed weights, usual tare.

Packages: usual bags.

Shipment: By steamer or steamers, direct or indirect, with or without transshipment, during the months of *March and/or April and/or May, 1924, to Boston, Mass., from India.*

Delivery: *ex-dock Boston, Mass.*

Terms of Payment: *Net cash against delivery order.*

Payable in New York in U. S. gold or its equivalent in currency.

General Conditions:

All agreements herein contained are subject to Government embargoes and restraint of rulers, princes, and people, and are contingent upon strikes, floods, riots, accidents, lockouts, fire, earthquakes, rebellion, war, or any other emergency beyond seller's control, and delay in shipment through any of the above-mentioned causes is not to be considered a breach of this contract, nor to exempt buyers from accepting later delivery.

In case that all or part of the goods shipped against this contract are not allowed entry into the U. S. A. by the Pure Food Authorities, this contract is canceled for all or any part rejected.

The date of Bill of Lading or "mate receipt" shall be sufficient proof of shipment. In case of shipment under Broken Bill of Lading buyers accept the date of the Bill of Lading from original port of shipment as the date of shipment under this contract. In like manner, a declaration on the Bill of Lading or a separate certificate signed by the Captain or agent of the steamer, or by the Superintendent of Docks, confirming that the goods were alongside or at the disposal of the steamer or in dock within the time stipulated in the contract, shall be accepted by buyers as proof of shipment. Each part shipment against this contract to be regarded as a separate contract.

Duty, if any, for buyer's account.

Any change in duty is to be for account of buyers.

Loss:—Should any vessel or vessels which may be applied to this contract be lost, and/or the merchandise or any portion thereof be lost through no fault of the seller, this contract shall be canceled and void, for such amount as shall be lost. Should the merchandise or any portion thereof be transshipped, and/or arrive, the contract shall stand good for such portion. In the event of damage, buyers agree to accept delivery thereof at a valuation to be mutually agreed upon.

Claims:—Buyer's claims must be made within ten days from date of landing of goods, and ten per cent of the original unopened packages must be available in event of dispute regarding quality, and so forth. Any difference of quality does not entitle buyers to refuse to take deliveries of the goods, and buyers must accept the goods with such allowances as may be awarded by the arbitrators, and must consider such allowances as final.

Arbitration:—Disputes between seller and buyer, if not mutually adjusted, must be settled by arbitration

..................in London, England..................

The award shall be final and binding upon both parties subject to the right of appeal, if either of the parties in dispute shall be dissatisfied with the arbitrator's and/or umpire's award a right of appeal can be claimed within three full business days following the completion of the arbitration, or in case the arbitrators and/or umpire have agreed in their award

for an extension of time. In case it should become necessary to hold a second arbitration by reason of an appeal, the award arrived at in such appeal shall be final and binding upon both parties. Sellers not liable for contingencies beyond their control.

No arrival, no sale.

(Given in duplicate)

........A. B. Brown........
General Manager

Accepted:
..........Jones & Co...........

CONTRACT III

Liverpool, 10th April/24

Messrs. Jones & Co., Boston, Massachusetts........

We have this day....*sold to*....you the following goods:

About (15) Fifteen tons New Crop African Ginger
@ 72/- (seventy-two shillings) per cwt.
c.i.f. Boston. In Bond.

Landing Weights. All landing and Weighing charges to be for Buyers' account, also any Import duties imposed by the U. S. A. Government.

Shipment during—April/June, 1924, direct &/or indirect from the W. C. of Africa, at Sellers' option, by Steamer &/or Steamers, with or without transshipment at Sellers' option.

The risk of the Ginger being allowed to enter the U. S. A. by the Board of Agriculture to be borne by Sellers, if the whole or part rejected by the Board of Agriculture, contract to be canceled for quantity rejected only.

Ship lost, sunk, or captured, contract void and also void for any loss on passage, after declaration.

To be of Fair Merchantable Quality or a fair allowance to be made.

Any dispute arising out of this contract to be settled by Arbitration in Liverpool.

Payment—Net Cash in Liverpool; 95% of Provisional Invoice amount, against Bill of Lading &/or Delivery Order, Policy of Insurance &/or Cover Note &/or Certificate of Insurance, duly endorsed, on presentation, or against Cable Release, on arrival in Boston. Balance to be made as soon as final Weights have been ascertained and final invoice rendered.

Yours respectfully,
E. S. Sweet & Co.
Brokers

Brokerage....*nil*....per cent.

CONTRACT IV

STANDARD ARRIVAL CONTRACT
of the
American Spice Trade Association
As amended, effective on and after July 1, 1925

New York,

Sold for account of M..
to M..

Quantity (5 per cent more or less)..
Article ....
Quality ....
Price ....*(Any change in present import duties of the U. S. A. shall be for account of buyer)*
Shipment ....
By Steamer or Steamers during ....
....19 , *direct or indirect to* ....
Terms ....
Payable in gold or its equivalent in New York City funds.
Weights ....
Tares ....
Insurance ....

All questions and controversies, and all claims arising under this Contract shall be submitted to and settled by Arbitration under the Rules of The American Spice Trade Association printed on the reverse side hereof. This contract is made as of in New York.

ACCEPTED

....
Signature.

RULES FOR STANDARD ARRIVAL CONTRACTS

1. DISPUTES.—Any question, controversy or claim whatever between buyer and seller, arising out of this contract, not adjusted by mutual agreement, shall be settled by arbitration in New York under the rules herein provided.

2. QUANTITY.—Unless otherwise specified, the ton shall be considered 2,240 pounds.

3. DECLARATIONS.—The name of the vessel or vessels shall be declared to the buyer by the seller before arrival of the vessel or vessels, excepting in case of shipments from English, West Indian, Continental or African Ports to American Ports (and in all cases to be declared with due despatch); and excepting also when sellers can show that they were prevented from making such declaration before the vessel's arrival by circumstances over which they had no control. No declaration may be withdrawn or changed by seller unless he can show error in the original declaration received by him; each declaration shall be treated as a separate contract. The word "afloat" shall be deemed to mean that the steamer carrying the merchandise in question shall have left the port of shipment at the date of sale.

4. LANDING WEIGHTS.—Landing weights shall be the actual gross weights; the goods to be weighed at seller's expense by public weighers, as soon as practicable after landing, in such lots as may be requested by buyers in writing within three days after the arrival of vessel.

5. TARES.—Pepper, Black and White, 2 per cent; Pimento, 3 lbs. per bag; Ceylon Cinnamon, 3 lbs. per bale; Tapioca, 2 lbs. per bag.

All other spices, seeds and herbs in bags or bales; average actual, to be ascertained by taring a certain percentage of the sound portion of each chop or invoice, as follows: 100 packages or more, 5 per cent; less than 100 packages, 10 per cent (such percentages to be at least the average gross weight of the chop or invoice) to be tared to the ounce and adjusted to the quarter-pound, each fraction of a quarter of a pound to be carried to the next higher quarter-pound.

All spices and seeds in cases or barrels: Tares to be ascertained by taking a test tare of 5 per cent on each 100 packages and 10 per cent on less than 100 packages, taking the marked tares, and adjusting up or down according to the gain or loss shown by the test tare. In case of no marked tares, actual tares to govern.

In case of packing in double bags, the outside bag shall be average actual. This rule to apply on all commodities. Weighers' returns of tares to state the gross weight of every package tared.

6. DATE OF DELIVERY.—Shall be the final date of weighing; or when the goods are not to be weighed, the last date of ships' receipts, but in either case not later than ten days after landing, except that in case of missing packages, such missing packages shall be invoiced separately if and when delivered, provided such delivery is within thirty days.

In the event of the merchandise being detained by the U. S. Department of Agriculture, date of invoice shall be date of release.

7. IMPORT REGULATIONS.—All spices, seeds, tapioca or herbs purchased under this contract shall comply with the rules and standards under which the U. S. Department of Agriculture enforces the Food and Drugs Act of June 30, 1906, and amendments thereto, at date of signing of this contract. If any such merchandise

or any portion of it be trans-shipped to any other vessel or vessels and arrive for account of the original importer, the contract shall stand good for such portion.

11. DEFAULT OF SELLER.—Whenever it shall be admitted by the seller or decided by arbitration that the seller has failed to fulfill the terms of his contract, and is therefore in default, the contract shall be settled as follows: The buyer shall invoice the merchandise back to the seller at a price and weight to be fixed by arbitration, the price to be the market value on the day of default as specified by arbitration, which price shall not be less than 2 per cent, and not more than 10 per cent, over the market value established as of the day of default; the weight, in case the contract calls for shipping weights, to be the full contract weight, and in the case of landing weights, the full contract weight less reasonable and usual loss in weight. The difference to be paid cash within ten days from the date of the arbitration award.

12. ARBITRATION.—The following regulations shall govern all arbitrations held under this contract.

A. ARBITRATORS.—Each disputant shall appoint a disinterested member of the Association as arbitrator. If either disputant shall neglect to appoint an arbitrator within three business days after notice in writing is received by him from the other disputant of the appointment of his arbitrator, the President shall appoint the other arbitrator upon a written request from either party to the dispute.

B. UMPIRE.—The two arbitrators shall select a third disinterested member of the Association as umpire, who shall meet and act with the arbitrators in the decision of the arbitration, and shall act as Chairman thereof. If the arbitrators shall fail to select the umpire within seven business days from their appointment, the President shall appoint the umpire upon request in writing from either arbitrator. The arbitration shall be held within ten business days of the calling of same, and both parties shall be duly notified of the date of hearing and entitled to be present thereat.

C. DISINTERESTED MEMBER.—A disinterested member of the Association shall be deemed to be one who will not be directly affected by the decision of the arbitration on which he is required to serve as arbitrator, umpire or member of the Arbitration Committee. No disinterested member may refuse any reasonable request of any other member to act as arbitrator or umpire.

D. AWARD.—The award of such arbitrators and umpire shall be final and binding on both parties, unless within three business days after receipt of the award, an appeal with a fee of $50 be lodged with the Secretary of the Association by either disputant. Settlements under an arbitration award or award of the Arbitration Committee shall be made within ten days from the date of such award.

E. APPEAL.—All appeals shall be heard by the Arbitration Committee, which shall consider cases decided by arbitrators and umpires, and shall sustain, reverse or modify same. They shall have the right to remand appeals to the arbitrators and umpires for re-arbitration. If, on any appeal any member of the Arbitration Committee shall be an interested party in the transaction or contract in question, his place shall be taken for that appeal by the member on the list of Arbitration Committee Alternates next in rotation for service. Three business days' notice of the hearing of the appeal shall be given by the Secretary to the disputants and to the

must be re-cleaned or re-picked to comply with these standards, the expense and loss in weight incident thereto shall be for the account of the seller; any reasonable loss in weight on re-conditioning to be considered part of tender.

Should such merchandise fail to comply with these Government standards after the seller has made every reasonable effort with due diligence, including re-cleaning and re-picking, to make it pass, the buyer shall still have the option to accept the merchandise; otherwise, the contract shall be considered cancelled, excepting should such merchandise be inferior to contract description, it shall not be a proper tender against the contract.

Where goods are sold to be released by the Department of Agriculture or no sale, expenses of storage, labor, cartage and insurance pending decision, shall be borne by seller if excluded, and by buyer if released.

Sound and damaged merchandise to be taken by the buyer Allowance for damage to be determined by arbitration or otherwise. Should the quality of the damaged portion in the opinion of the arbitrators be unmerchantable, buyer shall have the option of rejecting the damaged portion, but seller shall have the right to replace the rejected quantity from dock or steamer within the contract period or within ten days from date of arbitration decision.

8. QUALITY.—Arbitration of all disputes as to quality of merchandise and/or claims for allowance in price between buyer and seller shall be demanded within ten business days after the parcel is landed, and samples shall be drawn from the parcel on the wharf unless the entire parcel shall have been meanwhile stored in public warehouse, in which case samples shall be drawn within five business days after the parcel shall have been so housed and arbitration shall be held within six weeks of arrival of vessel. Individual samples for arbitration shall be drawn and selected in the presence of representatives of both parties to the contract, and shall be drawn from at least 10 per cent of each chop or invoice, excepting however:

8A. In Pimento, claims for allowance for inferiority to contract requirements shall be decided by selling brokers and should either buyer or seller consider such decision unfair, he may appeal, as provided in Rule 11, Section D.

8B. STANDARDS.—The permissible percentage of dust in Pepper (including stalks, stones, clay and other extraneous matter) shall be 3% as determined by sifting through a No. 9½ roundhole sieve. The permissible percentage of stems in Cloves shall be 5%. The permissible percentage of loose lime in Japan Ginger shall be 2% as determined by sifting through a No. 30 sieve.

9. CLOVES.—On contracts for Cloves for shipment from Africa, with an equivalent delivery clause, the minimum period under which a tender may be made shall be 75 days from the first day of the first shipping month, and the maximum period shall be 75 days from the last day of the last shipping month.

9A. CLOVES.—Any allowance for excess moisture in Cloves shall be subject to arbitration under rules to be prescribed by the Contracts Committee between January 1 and March 1 of each year, according to the percentage and method designated by the Contracts Committee, subject to approval of the Arbitration Committee.

10. LOSS OF VESSEL.—Should any vessel or vessels and/or the merchandise thereon, or any portion, which may apply to this contract, be lost before declaration, this contract shall be cancelled and void so far as regards such lost vessel or vessels and/or the merchandise, on the production of satisfactory proofs of shipment by sellers as soon as practicable after said loss is ascertained. Should any vessel or vessels and/or the merchandise or any portion be lost after declaration, the contract shall be cancelled and void for such amount as shall be lost. Should the merchandise

arbitrators and umpire whose award is appealed against, and they shall be entitled to be present and to be heard upon the matter in question. Not less than five of the Arbitration Committee being present, the decision of the majority shall be the final and binding decision of the appeal,

F. BRIEFS.—On appeals, other than those involving quality only, each appellant and respondent shall deliver to the Secretary of the Association seven copies of the brief or statement covering his case, duly sworn to, at least 48 hours before the time set for the appeal.

G. FEES.—Unless otherwise divided or awarded by the arbitrators and umpire, or the Arbitration Committee, the fees for arbitration or appeal shall be finally paid by the losing party. In event of arbitration between a member and non-member of the Association, the member must guarantee the payment of the fees or the non-member must deposit the fees with the Secretary before the arbitration is held, and adjustment shall be made after the award has been rendered.

The fees for arbitrators and umpires shall be $10 each in all cases, and in addition a $10 fee to the Association. In case the two disputants agree upon a single member, who shall act as sole arbitrator, instead of two arbitrators and an umpire, the fee for the sole arbitrator shall be $20 in all cases, and in addition a $10 fee to the Association. If an appeal shall be decided in favor of the appellant, the appeal fee of $50 shall be returned to the appellant and the respondent shall pay the appeal fee of $50.

Arbitrators or umpires shall be awarded extra fees by the Arbitration Committee, if in the judgment of the Committee the said arbitrators and umpires shall have performed unusual or extraordinary services during the arbitration on which they shall have served. The President and Members of the Arbitration Committee (except the Alternates) shall not be eligible to serve as arbitrators or umpires.

H. OATHS.—In all arbitrations and appeals the arbitrators, umpire and members of the Arbitration Committee shall, before acting, subscribe to the usual legal oath of office. In all arbitrations and appeal hearings all witnesses and principals giving oral evidence shall be duly sworn in the usual manner. Awards must be legally acknowledged. All notary fees to be paid as awarded by the arbitrators or Arbitration Committee in case of appeal.

I. OFFER OF SETTLEMENT.—In every case involving dispute, where the arbitrators and umpire decide that the contract has been properly fulfilled by the seller, or in every case where the seller has before the arbitration offered settlement which is held by the arbitrators and umpire to be sufficient, but which the buyer refused to accept, the fees shall be paid by the buyer; but where the buyer has offered a settlement and the seller has refused to make such settlement, which the arbitrators and umpire finally decide is adequate, the fees shall be paid by the seller; provided, that all offers as above shall have been made in writing.

13. FORCE MAJEURE.—This contract is subject to Force Majeure. Changes in the rules necessitated by Force Majeure may be declared by the Board of Directors from time to time, subject to revision by the Arbitration Committee.

14. SHIPMENT.—Prompt—shall mean shipment within fourteen days.
The date of shipment shall be, prima facie, the date of the Bill of Lading covering the merchandise.

15. MODIFICATIONS.—Any part of this contract written or inserted on the reverse side hereof, shall modify the rules printed on this side.

The first three of these contracts are brief and much less complicated and detailed than the fourth, the standard contract of the Spice Trade Association. The "private contracts" are used only between firms which are considered very strong and reliable, and hence it is not considered necessary to enumerate all the conditions. However, so many misunderstandings have occurred under private contracts, that the American Spice Trade Association adopted the standard form given, which is the contract now generally used. Many other trade organizations have adopted standard forms for the same reasons. The private contract continues in use, however, particularly among old houses with long established reputations and in cases where the transaction is one resulting from special bargaining. If the bargaining position of the seller is stronger than that of the buyer, the seller may insist on the private contract.

All of the above contracts are "contracts to arrive"; that is, the seller undertakes the actual delivery of the merchandise in Boston. Methods of price quotations and of payments vary, but the seller is obligated actually to turn over the goods to the buyer at the port of arrival—ex-ship, ex-dock, or ex-warehouse, as the case may be.

In a "c.i.f. contract," the seller obligates himself, not to the actual delivery of the goods, but to deliver to the buyer the documents that are evidence of shipment and ownership; namely, the bill of lading, the invoice, and the insurance policy. The port of shipment is the place of fulfilment of the c.i.f. contract. This would be true also in a c.&f. contract and, of course, in an f.o.b. contract.

SOURCES OF INFORMATION

Several agencies are available to the importer for obtaining information concerning sources of supply and the economic and financial conditions that would affect production and prices in the foreign market.

The United States Government maintains in the Bureau of Foreign and Domestic Commerce of the Department of Commerce at Washington an organization for collecting information concerning economic and trade conditions in all parts of the world. Except for the information on general economic conditions in various countries of the world and for information on

certain raw materials, the Bureau is of relatively little help directly to importers. The chief interest and activity of the Bureau of Foreign and Domestic Commerce is in promoting American exports. In fact, the representatives of the Bureau in foreign countries and the American consuls who supply much of the information distributed by the Bureau are specifically directed to withhold assistance to Americans seeking to purchase abroad except as to "raw materials and goods which are not in direct competition with the products of American industry."[9]

The Bureau of Agricultural Economics of the United States Department of Agriculture collects and disseminates information concerning agricultural conditions abroad, and reports on market conditions of various crops. Here, again, the information, while useful to importers, is more concerned with markets for American products, unless the products are non-competitive.

The United States Tariff Commission has published much information concerning imported products in connection with its various investigations that are useful to the importer.

The consuls of foreign countries in the United States are always ready to furnish information concerning the exports of their countries, and frequently can put importers in touch with foreign producers or exporters. Some foreign governments maintain bureaus of information in the United States in order directly to serve American inquirers.[10]

Chambers of Commerce in the chief commercial centers of the United States usually have a "foreign commerce section" to serve both the interests of importers and exporters. This applies also to the Chamber of Commerce of the United States, located in Washington, which maintains a considerable staff in its "foreign commerce section" for serving all foreign-trade interests.

Chambers of Commerce of joint American and foreign membership are trade-promoting and trade-serving organizations of considerable importance in all commercial countries. There are in the United States many such Chambers of Commerce, among the most important of which are the Italian Chambers of Commerce of New York, Chicago, and San Francisco; the Holland-American Chamber of Commerce of New York and of San Fran-

[9] See the *American Importer*, November, 1925.

[10] For lists of United States consuls abroad, and foreign consuls in the United States, see the *Congressional Directory*, also, the *Exporters' Encyclopedia*, and the *Custom-House Guide*.

cisco; the Norwegian-American Chamber of Commerce; the Spanish Chamber of Commerce of New York.

Many similar American Chambers of Commerce are found in foreign countries, such as the American Chamber of Commerce in London; the American Chamber of Commerce in France; the American Association of Commerce in Germany; the Chamber of Commerce for the Levant at Constantinople; the American Chamber of Commerce for Brazil; the American Chamber of Commerce of China in Peking, and many others.[11]

Chambers of Commerce of foreign nationality generally confine their membership to the nationals of the two countries concerned. They act not only, or chiefly, for purposes of supplying information, but also for bringing buyer and seller together, for settling trade disputes, and for the cultivation of harmonious trade relations. The International Chamber of Commerce, with headquarters in Paris, and an American section in Washington, is a source of information on trade matters of general interest.

Some of the many domestic trade associations in the United States are clearing-houses of information for their members on matters connected with imported products. Such, for example, are The Linseed Association, The Tanners' Council, The Dried Fruit Association, The Rubber Association of America, The Silk Association of America, and many others. The National Council of American Importers and Traders, with headquarters in New York, serves all import interests primarily in connection with tariff and customs matters affecting the interests of importers. The American Exporters and Importers Association, New York, serves the interests of commission merchants. The Import Managers' Group of the National Retail Dry Goods Association serves the interests of department-store importer managers.

Some trade associations of foreign origin have branches in the United States to serve American importers. Such is the Swedish Pulp Association with offices in New York.

Other sources of information concerning foreign sources of supply are the service departments of many large commercial banks; the special trade publications of various industries; the

[11] See *United States Trade Promotion Agencies Abroad*, and *Foreign Commerce Handbook*, Foreign Commerce Department, Chamber of Commerce of the United States of America, Washington.

international directories such as *Kelly's Directory of the Merchants, Manufacturers, and Shippers of the World;* the *Annuaire du Commerce Didot – Bottin;* the *International Directory*, published by the American Bureau of Trade Extension, and others; fairs and exhibitions, both temporary and permanent, the latter being represented by the Philadelphia Commercial Museum. Credit information organizations also, such as that of R. G. Dun & Company and the Bradstreet Company in New York and similar organizations in England, France, Germany, and Holland, are sources of information available to the importer.

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VII

FINANCING THE IMPORT TRADE

THE problem of financing foreign trade differs from financing domestic trade chiefly in the fact that it is a much more complicated matter and has developed its own special technique. As related to importing, the difficulties and complications arise principally because of: (1) the differences in the kinds of currencies used in the exporting and importing countries, and hence the problem of "foreign exchange"; (2) the greater length of time usually required in delivery of import orders and hence the greater need of financial accommodation by buyer or seller; (3) the differences in business methods, customs and laws between different countries, frequently resulting in greater difficulty in obtaining credit information, and in difficulties of settling disputes across international boundaries; (4) in the case of many commodities, especially raw materials produced in less advanced countries, there is often greater need of extending financial aid to producers and merchants. In such countries capital is likely to be scarce and interest rates high. The importer may be called upon, therefore, to finance the producer in whole or in part.

The financing needs and problems are thus seen to differ, not so much in kind as in degree, from the financing problems of domestic trade. Financing problems in importing include the following: (1) Methods of payment; (2) credit means and methods; (3) problems in exchange; (4) loans or advances to overseas merchants or producers. These groups of problems are interrelated. A particular method of payment involves not only a method of transferring funds, but may also be a means of granting credit, and also may be concerned with the risks and problems of exchange. Methods of payment, credit terms, and exchange are all interwoven in the financing policy or scheme adopted in import transactions.

METHODS OF PAYMENT

The methods by which the importer may effect payment for his foreign purchases are several. The following are some of the possible methods, although some of them are little used.

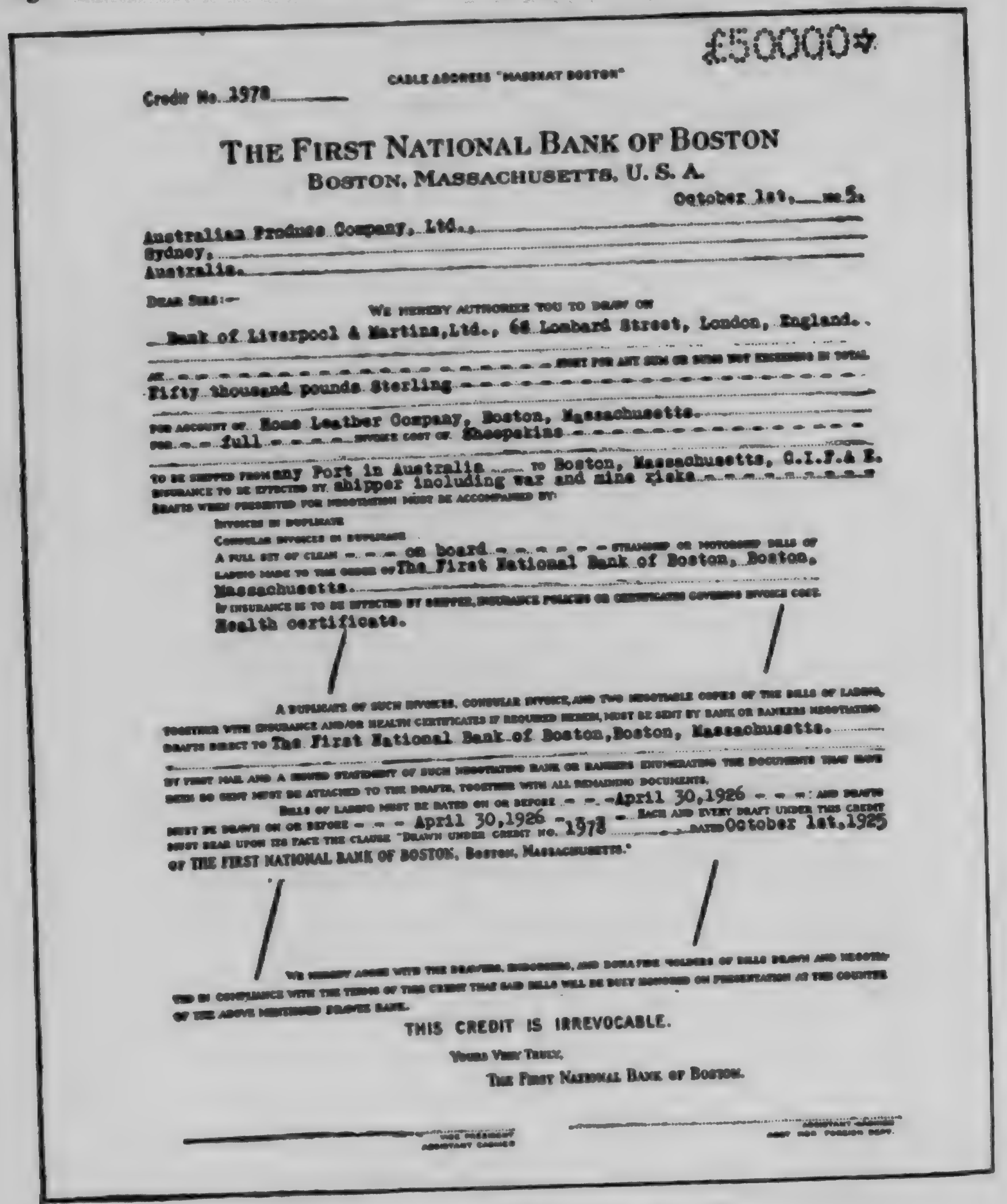
1. *Gold or currency shipments.* The actual shipment of currency is rarely undertaken by commercial firms. During periods of greatly unsettled exchange, however, it may be employed to a small extent, as was the case in Germany when United States dollars were taken into the country by purchasers during the period of disorganization following the war.

2. *Postal money orders.* United States domestic money orders can be used in transferring funds to United States possessions and to Canada, Cuba, and other near-by countries. International money orders can be used for those countries which are in the postal union. Such orders, however, are limited to $100, or its equivalent in foreign currency, per order, although an unlimited number of orders may be secured. The method is expensive since the Post-Office Department exacts a high rate of exchange. For small amounts the method is convenient.

3. *Express checks or money orders.* These are comparable to United States postal money orders but are cheaper since, by giving current exchange quotations, better terms are secured. The wide distribution of American Express offices abroad makes them a convenient means of remitting funds. The American Express Company and the banks also issue post money orders or remittances to their foreign branches or correspondents authorizing cash payments to specified beneficiaries. This is essentially the same as remittance by the bank draft.

4. *Drafts or bills of exchange.* A draft or bill of exchange is an order in writing addressed by one party to another authorizing the second party to pay a specified sum of money at a stated time to a third party or to bearer. There are several kinds of drafts, but they may be divided according to the party issuing the draft as bank drafts or banker's bills, and commercial or trade bills.

a) *A bank draft* is a bill of exchange drawn by one bank on another bank authorizing payment to a third party or to bearer.



£50000*

CABLE ADDRESS "MASSNAT BOSTON"

Credit No. 1978

THE FIRST NATIONAL BANK OF BOSTON
BOSTON, MASSACHUSETTS, U. S. A.

October 1st, ___5.

Australian Produce Company, Ltd.,
Sydney,
Australia.

DEAR SIRS:—

WE HEREBY AUTHORIZE YOU TO DRAW ON
Bank of Liverpool & Martins, Ltd., 68 Lombard Street, London, England.
AT SIGHT FOR ANY SUM OR SUMS NOT EXCEEDING IN TOTAL
Fifty thousand pounds Sterling
FOR ACCOUNT OF Home Leather Company, Boston, Massachusetts.
FOR full INVOICE COST OF Sheepskins
TO BE SHIPPED FROM any Port in Australia TO Boston, Massachusetts, C.I.F.& E.
INSURANCE TO BE EFFECTED BY shipper including war and mine risks
DRAFTS WHEN PRESENTED FOR NEGOTIATION MUST BE ACCOMPANIED BY:

INVOICES IN DUPLICATE
CONSULAR INVOICES IN DUPLICATE
A FULL SET OF CLEAN on board STEAMSHIP OR MOTORSHIP BILLS OF LADING MADE TO THE ORDER OF The First National Bank of Boston, Boston, Massachusetts.
IF INSURANCE IS TO BE EFFECTED BY SHIPPER, INSURANCE POLICIES OR CERTIFICATES COVERING INVOICE COST.
Health certificate.

A DUPLICATE OF SUCH INVOICES, CONSULAR INVOICE, AND TWO NEGOTIABLE COPIES OF THE BILLS OF LADING, TOGETHER WITH INSURANCE AND/OR HEALTH CERTIFICATES IF REQUIRED HEREIN, MUST BE SENT BY BANK OR BANKERS NEGOTIATING DRAFTS DIRECT TO The First National Bank of Boston, Boston, Massachusetts. BY FIRST MAIL AND A SIGNED STATEMENT OF SUCH NEGOTIATING BANK OR BANKERS ENUMERATING THE DOCUMENTS THAT HAVE BEEN SO SENT MUST BE ATTACHED TO THE DRAFTS, TOGETHER WITH ALL REMAINING DOCUMENTS.

BILLS OF LADING MUST BE DATED ON OR BEFORE April 30, 1926 AND DRAFTS MUST BE DRAWN ON OR BEFORE April 30, 1926. EACH AND EVERY DRAFT UNDER THIS CREDIT MUST BEAR UPON ITS FACE THE CLAUSE "DRAWN UNDER CREDIT NO. 1978 DATED October 1st, 1925 OF THE FIRST NATIONAL BANK OF BOSTON, Boston, Massachusetts."

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS, AND BONA FIDE HOLDERS OF BILLS DRAWN AND NEGOTIATED IN COMPLIANCE WITH THE TERMS OF THIS CREDIT THAT SAID BILLS WILL BE DULY HONORED ON PRESENTATION AT THE COUNTER OF THE ABOVE MENTIONED DRAWEE BANK.

THIS CREDIT IS IRREVOCABLE.

YOURS VERY TRULY,
THE FIRST NATIONAL BANK OF BOSTON.

VICE PRESIDENT
ASSISTANT CASHIER

ASSISTANT CASHIER
ASST. MGR. FOREIGN DEPT.

Figure 8: Irrevocable letter of credit.

An importer may purchase such a draft from his bank or from a broker for forwarding to the foreign creditor.

b) *Commercial bills and trade bills.* Instead of purchasing a bank draft, the importer may draw his own bill either upon a bank or upon another private party. Such drafts are known as commercial or trade bills.[1]

[1] Sometimes the term "commercial bill" is applied to a draft drawn by a private party on a bank, and the term "trade bill" to a draft in which both drawer and drawee are private parties. Drafts may further be classified as "sight" or "demand" drafts, and "time" drafts, depending upon the time of payment, the former payable upon presentation; the latter at 30, 60, or some other number of days after sight or after date. Drafts also may be "documentary" or "clean." Documentary drafts have had attached to them certain documents which are evidences of ownership of the goods for which the draft is the payment, as the bill of lading, the invoice, the insurance certificate, and so forth. Clean bills have no such documents. See Edwards, *International Trade Finance*, chap. iii.

5. *Import letters of credit.* Payments for imported goods, even when settled by means of drafts, usually are not made by draft remittances as described in the preceding section. The importer rather authorizes the foreign shipper to draw drafts upon himself or upon his bank at the time the goods are shipped, the importer providing the funds when the drafts become due. This gives rise to the use of the import letter of credit.

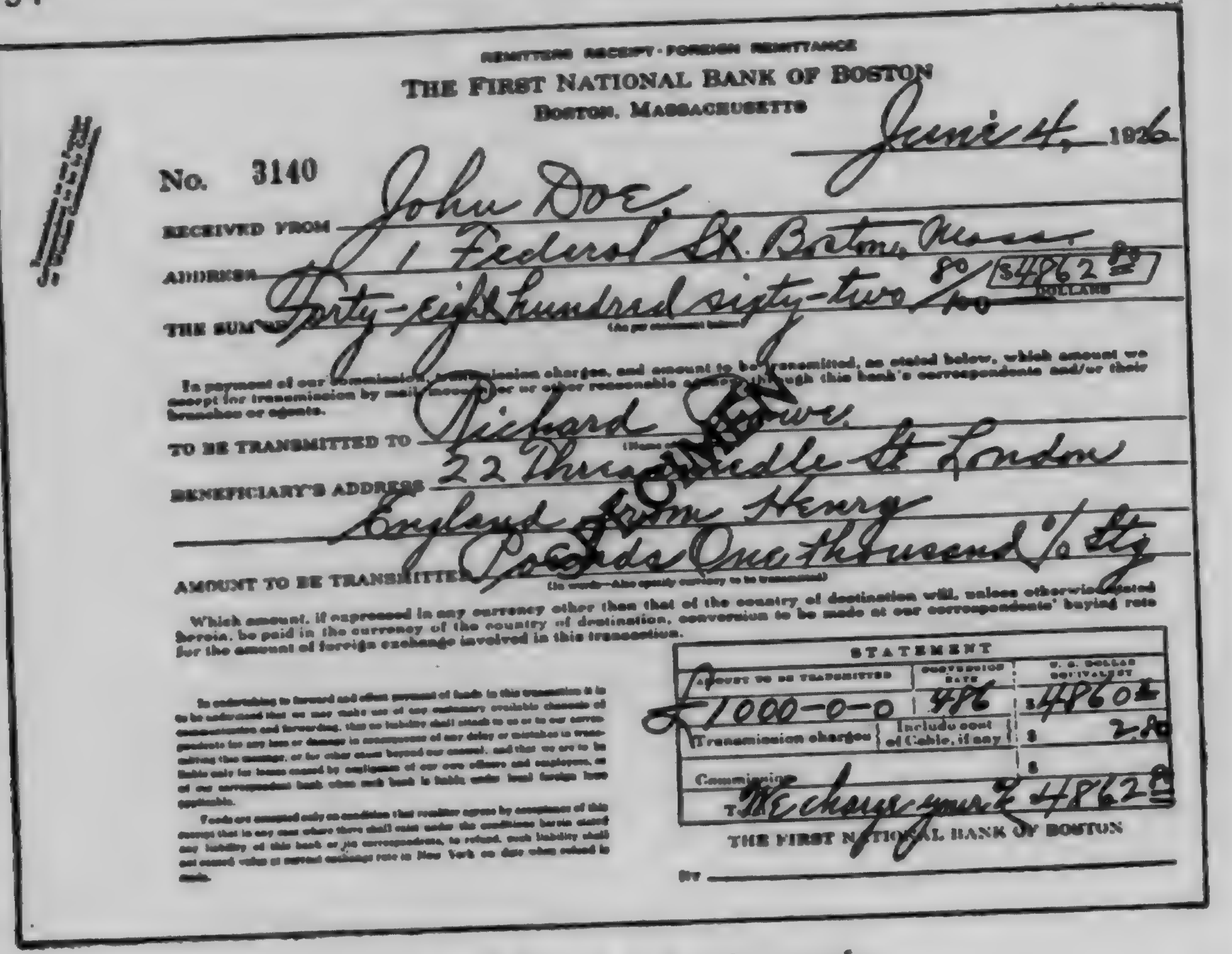
The import letter of credit is an instrument in writing obtained by the importer from his banker, under which the foreign shipper is authorized to draw drafts against the bank or its correspondent for the account of the importer and is guaranteed that the draft so drawn will be honored in accordance with the terms of the letter of credit. The letter of credit is forwarded by the importer or his banker to the shipper or the shipper's bank. It gives the seller security to the importer's promise to pay. When the goods are shipped, the foreign seller draws a draft which he can have forwarded to the importer's bank for collection or have discounted at his own bank which in turn forwards it for collection. In this way the seller receives payment for his goods upon shipment, while the importer, who has provided the letter of credit, has secured credit since it may not be necessary to supply funds for payment of the draft until the draft becomes due.[2]

6. *Cables or telegraphic transfers.* Payments may be made by purchasing from a bank cable or wireless transfers, under which funds are ordered payable to the foreign creditor by the bank's correspondent. Cables are expensive as a method of pay-

[2] There are several forms of import letters of credit, although the essential features are the same in all. The letter of credit may be:

1. Confirmed or not confirmed. A confirmed letter of credit is one in which the issuing bank and the notifying bank guarantee the foreign exporter that the payments will be made upon fulfilment of the terms of the letter of credit. That is, the notifying bank confirms the establishment of the credit by the importer's bank.

2. Revocable or irrevocable. A revocable letter of credit is one in which the issuing bank reserves the right to withdraw from the undertaking without notify-


REMITTERS RECEIPT · FOREIGN REMITTANCE

THE FIRST NATIONAL BANK OF BOSTON

BOSTON, MASSACHUSETTS

June 4, 1926

No. 3140

RECEIVED FROM John Doe,

ADDRESS 1 Federal St. Boston, Mass.

THE SUM Forty-eight hundred sixty-two 80/100 $4862.80 DOLLARS

In payment of our commission, transmission charges, and amount to be transmitted, as stated below, which amount we accept for transmission by mail ... or other reasonable ... through this bank's correspondents and/or their branches or agents.

TO BE TRANSMITTED TO Richard Rowe,

BENEFICIARY'S ADDRESS 22 Threadneedle St. London England from Henry

AMOUNT TO BE TRANSMITTED Pounds One thousand 0/0 Stg

Which amount, if expressed in any currency other than that of the country of destination will, unless otherwise stated herein, be paid in the currency of the country of destination, conversion to be made at our correspondents' buying rate for the amount of foreign exchange involved in this transaction.

STATEMENT		
AMOUNT TO BE TRANSMITTED	CONVERSION RATE	U. S. DOLLAR EQUIVALENT
£1000-0-0	486	$4860.00
Transmission charges	Include cost of Cable, if any	$ 2.80
Commission		$
Total We charge you		$4862.80

THE FIRST NATIONAL BANK OF BOSTON

BY

Figure 9: Receipt for cable transfer.

ment, since the party remitting the funds must bear the cost of the cable itself, the bank's commission, and the higher cable rate which is always above the demand or time rate on bills of exchange. On the other hand, the importer may save on interest charges, depending on the relation of interest rates in the United States to the interest rates in the foreign country. Cabling, for example, may be cheaper than a 60- or 90-day sight draft when interest rates are relatively low in the United States and high in the exporter's country.

The use of cable transfers has increased in recent years as better physical facilities have been provided, both by wireless transmission and by more cable lines. Fluctuating exchanges also have favored the use of cables, since less risk of exchange variations is involved in the few hours necessary for cables as

ing the beneficiary. An irrevocable credit is one in which the bank guarantees to honor all drafts drawn in accordance with the terms of the agreement.

The distinction between "confirmed" and "irrevocable" letters of credit is slight.

3. A revolving letter of credit is one which is automatically renewed as payments are made, keeping the amount of the credit available up to a specified amount.

Letters of credit may also be "sight" or "30-day" or "clean" or "documentary," and so forth, depending upon the terms of the drafts authorized by the letter.

compared with days by mail. During war time, cables give an element of safety when mails are subject to destruction by submarines, or loss through search, and other war measures. However, the use of cable payments in some commodities is complicated by the established methods of payments and price quotations which are based upon financing by letter of credit or some other method, so that the use of the cable would require radical revision of long-established custom.

CREDIT METHODS IN IMPORT FINANCING

The burden of financing an import transaction may be distributed in various ways. It may be carried wholly by the importer, put entirely upon the foreign exporter, shared by both importer and exporter in varying proportions, or transferred to third parties. Because of the generally longer periods involved in completing foreign-trade transactions, as well as because of the problems involved in dealings between merchants in widely separated countries and across international boundaries, credit terms in international trade are particularly important to both importer and exporter.

From the point of view of the importer, credit terms relate to financial accommodation in the time of making payment. It is generally to the importer's advantage to delay payment at least until the actual receipt and inspection of the goods purchased. Frequently he needs financial accommodation for a longer time. If the importer pays for the goods previous to their receipt, he not only is employing capital that he might use to better advantage in other ways, but he runs the risk that the goods when received will not conform in quantity, quality, or time of delivery to the terms of the purchase contract. On the other hand, if the foreign seller ships goods in advance of payment, he not only is employing his capital for financing the shipment, but he assumes the risk that the goods will not be accepted and paid for by the purchaser. Methods of financing have been developed so that the risks to both buyer and seller may be lessened in extending credit and the financing burden transferred in greater or less extent to third parties. The methods vary in the relative distribution of these risks among the parties to the transaction. In some cases, the burden is borne chiefly by the

exporter, in others by the importer, and in still others by the banks or brokers.

It should be noted that the importer frequently, perhaps generally, conforms to the custom of his particular trade in the method of financing. For different commodities and for different markets certain methods have become established and it is impossible or difficult to depart from the established method.

The following are the chief methods of financing imports:

1. *Cash settlement.* Here the importer undertakes to place funds in the hands of the seller at the time the order is placed or upon delivery of the merchandise. In so-called cash settlements there is usually involved a certain amount of extension of credit by the exporter to the importer. Cash payments may be as follows:

a) *Cash with order.* That is, the importer provides the foreign exporter with funds at the time the order is placed. This method is, of course, highly favorable to the exporter who bears no financial risk whatever. He may secure payments even in advance of manufacture or of preparation of shipment. For goods made to specification the requirement that advance payment be made may be fully justified.

A way of lessening risk under this method is for buyer and seller to arrange for effecting payments through a neutral third party. For example, the American Chamber of Commerce in Germany (Berlin) will act as trustee for the American importer, who may deposit funds with the Chamber for payment to the German seller on fulfilment of specified conditions.

b) *Cash when ready for shipment, or "cash against documents."* Settlement may be made upon evidence that the goods have been shipped or are ready for shipment. Payment may be made by the importer or his agent at the port of shipment upon inspection, or the importer may authorize payment on presentation by the shipper of the bill of lading, the invoice, the insurance certificate, and other documents carrying title to the goods and showing that shipment has actually been made. The importer, however, settles the transaction by placing cash funds in the hands of the exporter. Here the exporter has extended time of payment until the goods are actually shipped and to that extent it is to him a credit transaction. The importer, however, has had to place funds in the foreign country for payment on delivery or shipment.

c) *Cash on delivery in the importer's country.* This is distinctly a credit transaction since the exporter has extended the time of payment until the goods have arrived in the importer's country. If the merchandise should not be paid for, the exporter is left with the goods in a foreign land to be disposed of. The seller is bearing the credit burden. To avoid or lessen such risks, other methods of payment have been developed, as stated below (paragraphs 3, 4, and 5).

2. *Open account.* Under the system of open accounts, settlements are made in the same way as is frequently the case in domestic trade transactions. The exporter ships and bills the merchandise to the importer; the importer remits and the payment is credited on the books of the exporter. This method puts unlimited confidence in the importer. It is as favorable to him as the "cash with order" method is to the exporter. Under open-account methods, it may be agreed between exporter and importer that payments will be made upon receipt of goods, or a certain time—three or six months—may be given. Or perhaps remittances may be made periodically by the buyer without any specific time agreements.

The open-credit method is most common between international merchants who do both an import and an export business, and between merchants in adjacent or near-by countries. The method is particularly advantageous to the importer not only because payments are delayed until after their receipt, thus giving time for payment and opportunity for examining the goods; but also because it gives him the opportunity to take advantage of favorable foreign-exchange conditions. He may select the time for remittance to suit exchange. If the merchant does both an import and export business, under open account exports and imports can be made to offset one another and only balances need be remitted. For the importer, it is the cheapest method of financing. This cheapness in financing, however, may be more than offset by the fact that the foreign exporter may give less favorable price quotations, since he may have to make allowance for the added risk and expense the method places on him.

3. *Documentary sight drafts drawn by the exporter on the im-*

porter. Here the seller, upon shipment of the goods, draws a draft against the buyer for the amount of the invoice, to which are attached the documents indicating shipment, and then either forwards the draft to the importer's country for collection or discounts it with his bank. Under this method, the shipper has a degree of security since the importer cannot take possession of the goods until he obtains the documents by payment of the draft. The buyer, on the other hand, can postpone payment until actual evidence has arrived that the goods have been shipped. This may occur before the arrival of the merchandise, but will be several days or even weeks after shipment. He is receiving a certain amount of credit accommodation and a certain degree of security that the goods have actually been shipped by the exporter. The credit risk and the credit burden are shared by both exporter and importer.

4. *Documentary time drafts.* When the exporter draws a time draft it is to give the importer a longer credit term. If the drafts are drawn "after date," however, they may be so timed as to arrive in the importer's country at the same time as the goods, so that the importer receives no greater credit terms than under a sight draft. If drawn "after sight," the importer has an extension of credit equal to the usance of the draft. Time documentary drafts may be of two kinds: (*a*) "Documents against payments" (D/P) drafts, under which, as under the sight draft, the importer cannot obtain possession of the goods until payment is arranged; (*b*) "Documents against acceptance" (D/A) drafts, where the documents, and hence possession of the goods, are secured when the importer accepts the draft.

The foreign seller who draws a time draft may discount it at his bank, thus securing payment and passing the actual carrying of the financial burden on to the bank; but he does not escape responsibility for its final payment. The cost of discounting is borne by the seller unless it has been included by agreement in the price quotations or in the face of the draft.

5. *Banker's import letter of credit.* Under the methods of credit provided by drafts drawn by the exporter upon the importer as described in the preceding sections, the seller or the seller's bank has taken the responsibility for granting the importer extension of time for payment. The initiative and burden

are borne by the seller. Under an import letter of credit, the credit is established by the importer himself through his bank. By this method, the importer purchases through his own bank, or a bank in the seller's country, or a bank in a third country, a letter of credit under which the foreign seller is authorized to draw drafts against the issuing bank, according to the terms of the credit. Drafts drawn by the exporter under a banker's letter of credit are among the safest of commercial instruments. In the case of a confirmed, irrevocable letter of credit, the exporter has a draft that can be discounted at his bank on the most favorable terms. The credit is as good as the credit of the bank which issued the letter. In fact, the letter of credit substitutes the credit of the issuing bank for that of the importer. Letters of credit may be opened by cable as well as by mail.

For the importer, the advantage of the letter of credit comes from the better terms, both as to prices and as to credit, that he may receive from the exporter because of the greater security offered the exporter by the letter of credit. This advantage may many times offset the cost of the credit in banker's fees to the importer. It may also enable an importer to obtain credit from foreign exporters where otherwise it would be impossible. While the foreign exporter is thus provided with first-class security for the ultimate payment of his invoice, the importer has limited means of securing corresponding assurance that the goods shipped conform in quantity or quality to the contract terms. The correspondent bank in the foreign countries honors drafts under the credit on presentation of the required documents; it ordinarily does not investigate or assume liability for the character or quantity of goods represented by the documents. It is possible, however, to arrange for inspection of merchandise by firms that are organized to render such services for bankers and merchants. An importer may instruct his bank abroad to honor no draft unless a certificate of inspection, issued by a reliable company, is attached to the documents.

Another method aimed at greater security to the exporter who draws drafts against the importer is provided by the "authority to purchase." The buyer's banker authorizes the seller's bank to honor the draft when presented. The authority to purchase is rarely, if ever, used by importers in the United States. It is not a substitute for the letter of credit.

6. *Refinancing acceptance credits.* Under certain circumstances it may be advantageous for the importer to obtain his credit extension through his own bank by a method sometimes referred to as "refinancing credits." That is, the importer will provide the usual letter of credit but will secure funds for meeting the drafts drawn under it by the foreign shipper, by drawing a clean draft upon his own banker, which the banker in turn accepts, and the drawer immediately discounts. The funds thus secured are then made available for meeting the draft drawn by the foreign shipper. The funds, of course, are secured in the importer's country, and the burden of financing is carried by the purchaser of the acceptance.

If, for example, interest rates should be lower in New York than in London, and consequently also discount rates, then the actual cost of obtaining 30-, 60-, or 90-day credit may be less if the importer arranges that the financing be accomplished, not by the shipper drawing a 30-, 60-, or 90-day draft on London, but by drawing a sight sterling draft on London which is to be met by funds raised by means of the New York banker's acceptance. The importer, through drawing a draft accepted by his banker in New York, at the same time secures funds for meeting the sterling sight draft and the usual length of credit time. In fact, by this method not only may the financing be accomplished at less cost to the importer, but the importer may be able readily to secure a greater extension of credit than he could otherwise. The importer is enabled to raise funds by the acceptance to meet the terms of the draft drawn by the exporter, but he avoids the necessity of making full payment at the time it is due. He exchanges an old debt for a new one. His own banker carries the credit.

7. *The trust receipt.* The "trust receipt" is a credit instrument by which the importer is enabled to secure delivery of goods after the goods have arrived in this country but in advance of the actual transfer of ownership through transfer of the documents. Since under the usual terms of a letter of credit, the actual delivery of goods can be had only when the shipping documents have been obtained from the bank, the importer must meet the conditions of payment or acceptance specified in the letter of credit. The trust receipt is a signed acknowledgment

Amounts	No. of Credit	Due in Boston
$69,656.67	15785	April 6th,1926

Boston, January 8th, 1926

Received from THE FIRST NATIONAL BANK OF BOSTON, the following goods and merchandise, their property, specified in Bill of Lading per

S. S. " BRAZILIAN PRINCE "

Dated, marked Montevideo, December 14th, 1925

B. and C.
BOSTON
Nos. 1/200

200 BALES OF WOOL

and in consideration thereof we hereby agree to hold the said goods in trust for The First National Bank of Boston, and as its property, with liberty to manufacture and remanufacture the same without cost or expense to it, and to sell the same for its account. We agree to keep said goods, the manufactured product, and the proceeds thereof, whether in the form of moneys or accounts and bills receivable, separate and capable of identification as the property of The First National Bank of Boston, and we agree in case of sale, to hand the proceeds to said First National Bank of Boston, to be applied by it against the acceptances of The First National Bank of Boston on our account, under the terms of Letter of Credit No. 15785 issued for our account, and to the payment of any other indebtedness of ours to The First National Bank of Boston, whether then due or not.

The First National Bank of Boston may cancel this trust at any time and repossess itself of its said property in whatever condition it may then be, or of the proceeds thereof if sold, wherever the same may be found. And in the event of any suspension or failure, or any assignment for the benefit of creditors on our part, or of the non-payment at maturity of any obligation or acceptance made by us under the above-named Credit, or under any other credit issued by The First National Bank of Boston on our account, or of any other indebtedness on our part to it, all such obligations and acceptances and all indebtedness shall thereupon (with or without notice) become due and payable.

We further agree that the said goods, while in our hands, shall be fully insured against loss by fire, and that the insurance money recovered for any loss shall be subject to the trust herein contained in the same manner as the goods themselves.

Invoice
Consular Invoice
Sanitary Certificate
Certificate of Origin
Currency Certificate
Weight Note
Wrapper Certificate
Insurance Certificate
Warehouse Receipts
Delivery Orders
Declaration of Shipper
7/3 /Bills of Lading

HOME WOOL COMPANY.
C. Bates.
Treasurer.

(Authenticated signature of person signing, and evidence of authority in case of agent or officer acting for applicant, must be recorded with us.)

PLEASE SIGN AND RETURN

Figure 10: Trust receipt.

of the bank's ownership in the merchandise, given by the importer in return for delivery of the shipping documents or warehouse receipts, whereby the importer secures delivery of the goods in whole or in part. It, therefore, grants the importer an additional length of credit, or enables him to obtain possession of goods before payment, even in the case of a D/P draft.

MEETING EXCHANGE RISKS

In normal times and between countries with only slightly fluctuating currencies, the exchange risk is likely to be much smaller than the merchandising risks, and can readily be taken by the importer. This applies particularly to goods on which there is a considerable margin of profit. When currencies are widely fluctuating, however, the problem of meeting exchange risks is one particularly difficult. On merchandise in which margins are small, slight changes in the exchanges may be sufficient to overcome merchandise profits. Likewise, the possibilities of profits on exchange are apt to tempt the importer to speculation in exchange. Since the cost of exchange is one of the elements in the total cost of imported merchandise, and hence a factor needed in setting resale prices, the desirability of minimizing the risk of exchange is apparent. To what extent can the importer avoid or lessen such risks?

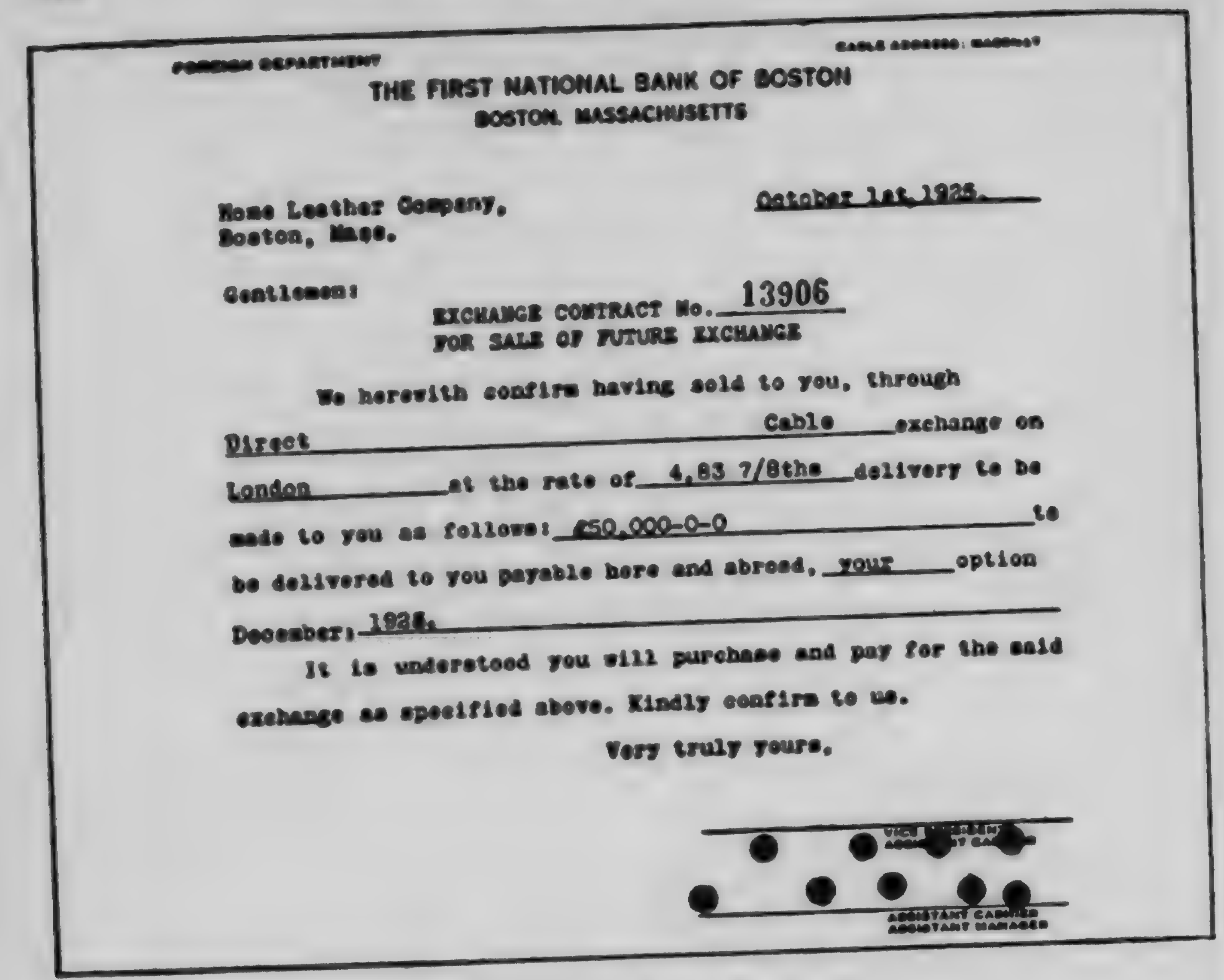
1. *Purchase of imported goods in dollars.* It is evident that if the importer can secure dollar quotations he runs no exchange risks; he has placed them upon the foreign seller. This has been done often in recent years in the case of imports from countries where currency and exchange were in a chaotic condition, as, for instance, imports from Germany. In the case of some manufactured goods, where competition of foreign sellers for American trade is particularly keen, dollar quotations can sometimes be secured. In many cases, however, this is impossible. Or, if the seller can be persuaded to give dollar quotations, his price levels are raised in order to cover the assumed risks. Quotations on imports are usually in the currency of the exporting country. When goods are purchased directly from the producers, or from local merchants, it is generally impossible to secure other than local currency quotations. In some cases, particularly for raw material, the custom of the market is so firmly based on a particular currency quotation, that changes to dollars, while not impossible, might be extremely difficult. However, the war and post-war development of New York as an international money market has facilitated purchases in terms of dollars, as has also the development during the same time of American banks abroad and the greater amount of direct shipments from producing countries to the United States.

2. *Buying spot exchange when goods are ordered or shipped.* While this method will enable the importer to know in advance definitely the cost of his goods, it is expensive and would not be applicable to goods sold on narrow price margins. The importer by this method must tie up funds in advance of receipt of goods, sometimes for months. He is essentially paying cash in advance.

3. *Buying future exchange.* A future exchange transaction is "a contract by which one party binds himself to purchase and another party to sell at a fixed price a definite amount of exchange on or before a specified date."[3] The buyer of the exchange may pay nothing at the time of making the agreement—he merely agrees to purchase the exchange at the future date, unless the buyer's credit is unsatisfactory and a deposit, therefore, required by the banker. Buying of future exchange is a hedging transaction and carries with it the same advantages and disadvantages of any other hedge. The limitations of using this method arise from the fact that for some currencies there is no market for future exchange. In such a case the bank selling the future would need to cover itself by buying spot exchange. This might make the cost excessive, greater than the risk would warrant. A more serious objection comes from the fact that the purchase of the future exchange may not itself eliminate the risk. The price of the commodity may vary as a result of the fluctuations in exchange;[4] or the goods may not be delivered until long after the agreed-upon date of delivery; or they may not be delivered at all.

[3] Cook, A. B., *Financing Exports and Imports*, p. 151.

[4] See Keynes, *Monetary Reform*, chap. iii. "The price of a particular commodity, in terms of a particular currency, does not exactly respond to changes in the value of that currency on the exchange markets of the world, with the result that a movement in a country's exchanges may, in the case of a commodity of which that country is a large seller or a large purchaser, change the commodity's world value expressed in terms of gold. In that case, a merchant, even though hedged in respect of the exchange itself, may lose, in respect to his unsold trading stocks, through a movement in the world value of the commodity, directly occasioned by the exchange fluctuation" (p. 133).


FOREIGN DEPARTMENT

THE FIRST NATIONAL BANK OF BOSTON
BOSTON, MASSACHUSETTS

Home Leather Company,
Boston, Mass.

October 1st, 1925.

Gentlemen:

EXCHANGE CONTRACT No. 13906
FOR SALE OF FUTURE EXCHANGE

We herewith confirm having sold to you, through Direct Cable exchange on London at the rate of 4,83 7/8ths delivery to be made to you as follows: £50,000-0-0 to be delivered to you payable here and abroad, your option December: 1925.

It is understood you will purchase and pay for the said exchange as specified above. Kindly confirm to us.

Very truly yours,

Figure 11: Exchange contract.

4. *Purchase of exchange at apparently favorable rates to meet foreign commitments.* Here the importer attempts to keep himself supplied with exchange, purchasing when exchange seems to him low and thus being constantly provided. The method requires a considerable use of funds and may be criticized as being highly speculative.

5. *Purchase of exchange when payments are due.* This method is based upon the supposition that in the long run losses and gains from exchange fluctuations will balance. It does not attempt to eliminate the exchange risk, but constantly takes it, assuming that the risks and costs are no greater than when future provision is made.

FINANCING FOREIGN MERCHANTS AND PRODUCERS

The importer or his bank may be called upon to finance the foreign producer or merchant over longer or shorter periods of times in ways other than those provided in connection with the

financing of a particular purchase. In many new countries, interest rates are high, capital is scarce, crops are highly seasonable. In order to secure the quantity and quality of goods desired, and in order to meet competition with other purchasers, the importer may have to grant loans in one form or another to the producer merchant or shipper. This situation has arisen even in the older countries of Europe and in connection with European manufacturers as a result of the war with its attendant scarcity of capital and consequent high interest rates. The extent to which the importer should attempt to maintain relations and insure supplies by making long-time advances or actually investing in the foreign enterprise often offers interesting and complex problems. It is a part of the larger question of foreign investments.

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VIII

TRANSPORTATION OF IMPORTED GOODS AND CLEARANCE THROUGH CUSTOMS

The foreign goods having been purchased and provision having been made for financing the transaction, the importer must next see that satisfactory arrangements have been made for transporting the goods to the United States, clearing them through the custom-house, and providing for their delivery to ultimate destination in the United States.

TRANSPORTATION OF IMPORTED GOODS

The burden of arranging for transportation to the port of arrival may, of course, be put upon the foreign shipper. If the terms of purchase are "c.i.f. port of arrival," the foreign seller must see that the goods are assembled, packed, and marked, that freight space is engaged, insurance arranged for, freights paid, the proper shipping documents filled out, and all other details arranged for placing the goods aboard the ocean steamship for transportation to the United States. If the shipper is to perform these services to give best satisfaction, however, he must be correctly instructed as to the desires of the importer. Hence, as stated in Chapter VI, when the importer places his order he gives directions for routing, marking, and packing. The purchase contract may stipulate the duties of the shipper in this respect. "Standard instructions" may be issued to the importer's agent or forwarder to govern all shipments from a given market. Even if the goods are bought "f.o.b. foreign port," "f.o.b. factory," the shipper generally arranges all shipping details and adds freight and other charges to the invoice.

If the importer has his own foreign branch, the branch may arrange for shipment; or the importer's buying agent or representative may perform this service; or the importer may instruct the seller to turn the goods over to a freight forwarder (see also Chapter III).

The forwarder is a specialist in transportation. If competent, he is prepared to perform all the technical services connected with the preparation and assembly of the goods for shipment. Such forwarders are to be found in all the leading commercial centers of the world. Some of them operate only for their own districts or countries; some are international in organization, with branches in many countries. A few American forwarders have branches abroad and, through their branches or correspondents, will undertake for American importers all their transportation functions, both in this country and abroad. Some of the large steamship companies have their own forwarding departments and will undertake the forwarding of shipments. Some of the foreign railroads through their freight departments undertake similar services in foreign countries. Likewise, the freight departments of some American and Canadian railroads are organized to give such services in foreign countries and will issue through bills of lading to points served by their lines, and their traffic managers at seaboard ports will arrange for forwarding to destination in this country.

An efficient forwarding company frequently may be able to offer better and cheaper services of this kind than an exporter or importer himself could provide. Since ocean shipping is highly technical, the securing of freight room at the time needed and at the lowest rate is the work of an expert. Even when an importer does a sufficiently large business to establish his own traffic department, the forwarder may be cheaper. Frequently the forwarder, by combining several shipments, can obtain more favorable rates than could be obtained by a single importer.

Some or all of the following functions must be performed in the foreign country in preparing goods for shipment to the United States.

1. *Assembly.* For bulky crude materials purchased in large lots from single producers, there is little or no problem in assembling goods for shipment. Goods that are purchased in small quantities and from many producers need to be assembled in some convenient shipping center. This applies to raw materials as well as to manufactured products. By assembling goods in large quantities for combined shipment, savings in freight, packing, government fees, and so forth, may be effected. If many sep-

arate shipments can be combined, not only are savings effected on freight rates, but they will go forward on one bill of lading rather than several, thus avoiding the cost entailed in securing several ladings. The assembly of goods may require warehouse facilities and the operation of trucks, boats, teams, or other means of transportation. The assembly may also require grading, sorting, or cleaning of goods.

2. *Labeling.* Every separate article imported into the United States that is capable of being stamped or labeled and every package containing an imported article must be plainly and conspicuously stamped or labeled in English to indicate the country of origin. In addition the outside container must be marked. This regulation of the tariff act is strictly enforced, and no goods are released from customs until the requirements are satisfied. To mark goods after arrival is expensive both in time and money and subjects the importer to an additional duty of 10%. The regulations respecting labeling of canned or preserved foods and drugs must be observed in imports exactly as in the domestic trade, the labels indicating the weight and nature of the contents. Many goods must be so marked during the process of manufacture.

3. *Packing.* The importance of proper packing is self-evident. The importer, even if he does not himself arrange for the packing, must, in many cases at least, issue instructions for its proper performance. Packing is a much more complicated matter than may appear at first thought. The following considerations must enter into the method of packing:

a) *Safety.* Packing should provide protection from losses due to breakage or leakage during the rough handling to which ocean shipments are subject; from pilferage and petty thievery; from damage due to sea water and exposure to weather; from extremes of heat or cold, due to climate or to stowage in the ship's hold; from rust, decay, mold, insect pests, and the many other dangers to which goods are subject on long ocean voyages. Poor packing may result not only in financial losses and inconvenience, but in contention and litigation.

b) *Cost of container.* Manifestly the cost of packing must be considered, particularly since import duties are levied on the cost of the container as well as on the goods themselves. New methods or new materials may need to be substituted for customary methods in order to reduce cost. On expensive containers it may be possible to arrange for multiple-trip containers on which rebates of duty can be secured, if they are of American manufacture, and the expense of new containers for each shipment obviated.

c) *Freight and handling costs.* Heavy or bulky packing may increase freight rates. Since ocean rates may be based upon weight or measurement at ship's option, it frequently may happen that the method of packing may materially lessen freight charges. It may also affect marine insurance rates. Cost of handling both in transportation and at destination may be affected, since either too large or too small units may be uneconomical for efficient handling.

d) *Tariff costs and customs regulations.* Packing in reference to tariff classifications may sometimes save duties. Certain parts, if shipped separately, may enable the importer to secure a lower tariff classification. Laces, for example, may be shipped separately from the garments to which they are to be attached, making the garments dutiable at a lower rate. Dutiable goods should be packed with reference to their examination by customs officials and in conformity with customs regulations. Such, for example, are certain sanitary regulations concerning the kind of packing to be used. Straw from some countries cannot be used, except under prescribed conditions. Delays and expense will be avoided by careful observance of all such regulations. Customs regulations prescribe certain methods of packing of some goods, as in the case of imported cigars.

4. *Marking.* The package ready for shipment must be marked for identification and address to conform with the steamship and railway regulations, and to aid the consignee in identifying readily his shipment. Addresses should be clearly legible, conspicuous, and not removable. To aid in quick identity of packages importers employ symbols or individual marks on all packages. These usually consist of a simple geometric figure with initials and letters. These marks and symbols should not only enable the freight handlers and truckmen to identify the package of a particular consignee upon its arrival, but they also should enable

the importer and his agent readily to know the contents of a particular package, to pick out the packages designed for forwarding to a particular purchaser, and for any other purpose for which identity of a package may need to be maintained. Proper marking makes possible large savings in handling goods upon arrival at port. The symbols are a further aid in that they enable the importer to conceal from others the nature of the contents. If a package is labeled "cigars," it may be an invitation for pilferage; if a secret symbol indicates "cigars," the freight handler may be saved the temptation.[1]

5. *Inspection.* Examination of the goods before shipment is desirable to see that they meet specifications as to quality and quantity. When the importer has no representative to inspect goods at the point of shipment, it is possible to employ the services of those firms found in the better-organized markets which specialize in the examination or inspection of goods and issue certificates of inspection for the protection of the merchants and bankers concerned. The purpose of such inspection may be not only, or primarily, for detection of fraud, but to eliminate errors or carelessness in marking, packing, making out of papers, and so on.

6. *Engaging freight space.* Freight space often must be engaged far in advance of the date of shipment, and, when engaged, goods must be ready for the steamship company at time of arrival of the ship. Freight rates may vary from day to day, and a shipper can sometimes secure favorable rates by "shopping" among the steamship companies. However, rates among the standard steamship lines are governed by conferences usually establishing rates for yearly periods. Engaging ocean freight involves selection of the steamship company, and the routing of the shipment, both of which may involve differences in cost, time, and kind of services rendered.

Depending on the nature, regularity, and size of the shipments, freight space may be provided for in five ways: (*a*) Booking cargo space for each shipment; that is, a separate contract is arranged between the shipper and the steamship company. (*b*) Yearly contracts; that is, a given space may be engaged for

[1] See Butterbaugh, *Principles of Importing*, pp. 64-67, for more detailed description of packing and marking.

a year or other stated period at a specified rate. When regular shipments are assured, considerable savings may be made in this way. (*c*) Chartering. When whole cargo shipments of bulk freight are involved, the importer may charter a vessel. Charters may be arranged for a single specified trip, or to cover a given time.[2] (*d*) Private carriers. The largest importers of bulk cargo, or of cargo requiring special types of ships, may find it to their advantage to own and operate their own boats. Examples of such are the United Fruit Company, for importing fruits from the West Indies; the Bethlehem Steel Company, for importing iron ore from Chile; the various oil companies, for importing crude oil from Mexico and Caribbean countries. Such companies frequently act also as common carriers on the outward voyage, or they may employ the boats for export of their own manufactured products. (*e*) Parcel-post and express. Small packages and goods of high value may be imported by mail or by express. Parcel-post shipments are possible from most countries, but regulations as to weight, size, and kinds of articles allowed vary greatly. Parcel-post imports in 1924 were valued at more than $107,000,000. Imports by this method apparently are increasing.

7. *Insurance.* Insurance should be arranged to cover possible losses from the time the goods leave the factory until delivered to the purchaser. If goods are held in storage while being assembled at the foreign port of shipment, or while waiting the arrival of the next steamer, fire insurance should be provided. Since ocean carriers assume little responsibility for loss or injury of goods in transit, the importer must be protected by marine insurance. Not only does the importer need marine insurance to protect himself against losses during transportation, but the marine insurance policy is a necessary document for securing credit. The insurance policy and the bill of lading are the two most important documents required by the banks granting the credits. Marine insurance may be taken out for each individual shipment, or the importer may arrange with the insurance company for a "blanket" or "open" or "floating" policy. Under a blanket policy, an agreed-upon maximum of insurance is arranged for shipments during a period of time, and each shipment as made is automatically covered. The insurance company is, of course, notified

[2] The contract entered into in engaging the full use of a ship is called a "charter party."

for each shipment as to amount, value, steamship, and other details.

Marine insurance is a complicated and technical matter. There are many clauses and risks that may attach to particular policies or certificates. The clauses or risks will be determined by the nature of the goods, the country of exportation, condition of peace or war, and so forth. Every marine policy covers losses from the perils of the sea and "General Average" losses, that is, losses to be shared in common by all the cargo and the ship. This is the simplest form of marine insurance written. It is the "FPA Form"—Free of Particular Average. These are basic risks.

Losses for deterioration of the goods during transit, that is, "Particular Average" losses, can very seldom be covered directly. They are covered by special clauses such as losses from heat and sweat on cocoa or coffee. Some commodities, such as manufactured chocolates that are heated and spoiled in transit, can very seldom be insured against deterioration or partial damage. "WPA policies," that is, "With Particular Average," contain clauses against such special risks, generally including sea-water damage during rough voyages. In the event a smooth passage was performed with no protest made by the captain on arrival, damage from other causes would not be covered by the clause. Clauses providing for special risk of contact with other cargo then would be needed. But this feature will not cover leakage or seepage from fuel oil. Fuel oil coverage would be required. Other risks, as theft and pilferage, leakage, hook-hole damage, breakage, and the like, are readily given by the insurance underwriters. In fact, protection can be secured against about every possible loss, provided the insured wishes to pay the fees required. The importer should exercise great care in placing his insurance in order to be assured of the protections he desires.

An important problem in insurance of imports, often overlooked by the importer, is the selection of the company under which the policy is carried. Generally the importer on c.i.f. shipments leaves this important matter entirely to the consignor, with the result that he is inadequately insured or insured in an unreliable company. When the foreign shipper effects the insurance, care should be taken to see that the insurance company selected is one that is of known reliability. The company should be one that at least has been registered under the insurance laws of a state of the United States, thus indicating that the company has met the requirements of the state insurance laws and is under state inspection. Marine insurance written by responsible American companies gives the importer the advantage, in case of claims for losses, of being able to deal directly with the responsible parties and to get, usually, much quicker settlements and better services. For this reason, it is often preferable for the importer to buy his goods c.& f., and attend to his own insurance under his own policy.

8. *Invoicing*. There are two invoices necessary in making import shipments into the United States. The "commercial invoice," made out by the seller, is similar to the commercial invoices of domestic trade. The import invoice, however, needs to be made out with particular care in order to avoid misunderstandings between a buyer and a seller who may be many thousand miles apart. The invoice should contain all details as to prices, quantities, weights, dimensions, discounts, and all separate charges, such as packing, domestic freight charges to the port of shipment, insurance, and so forth. This information may be necessary in connection with determining customs valuations and tariff charges. The commercial invoice is generally in the language and currency of the exporter's country.

The "consular invoice" is required by the United States customs regulations on all import shipments into the United States valued at over $100. These invoices, made out on forms furnished by the United States Government, are sworn to before the United States consul nearest the factory shipping point. The detailed regulations concerning these invoices are many, and extreme care must be employed in preparing them, since they will be used by the customs officials in entering the goods and as a guide in assessing duties.

9. *Bills of lading*. When the goods are delivered to the transportation company, the shipper obtains a bill of lading. There are two types of bills of lading of interest to the importer—the "ocean bill of lading," and the "through bill of lading." The latter is a combination ocean and rail bill of lading, providing for transportation from the overseas country through to the point of destination in the interior of the country. In overseas importations, the bill of lading is of primary importance. This document

SWAIN TRADING COMPANY
BUENOS AIRES

Purchase No. 323

- Invoice -

of 4,000 Wet Salted Steer Hides
Shipped by Swain Trading Company *from* Buenos Aires
On board the s/s. "HALIZONES" *Bound for* BOSTON
Consigned to The Bank of Boston, Boston, Mass.
For account of Cambridge Tanning Company. Boston, Mass.
On account of The Bank of Boston, Boston, Mass.
Letter of Credit No. 4772
Dated March 20th, 1924.

Buenos Aires, April 5, *19*24

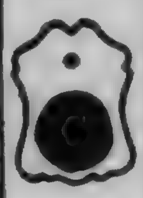
NUMBERS AND MARKS		[illegible]	ARGENTINE GOLD PER 100 KILOS	ARGENTINE GOLD AMOUNT
4,000	Wet Salted Steer Hides	101.505	$ 39.25	$39,840.71
	COSTS			
	Receiving expenses	17.60		
	Salt 10.000 Kls.@ $43 c/l p.m.	189.20		
	Lighterage at $6 c/l per m.	267.97		
	Interest $37,680 - 18 days - 6%	113.04		
	Statistical charges	129.76		
Marked	Consular fees and bill stamps	46.30		763.97
				$40,604.58
with	Exchange on U.S.A. @ 128.50 equals		31,598.89	U.S. Currency
	Commission at 1% equals		315.98	" "
Blue	Value f.o.b. Buenos Aires		31,914.87	" "
Celluloid	Freight 223,778 lbs. less 7% shipping shrink at $9.50 per ton.		883.50	" "
Tag	Value c&f Boston		32,798.37	" "
	Weight 101,505 kilos at 2.2046 equals 223,778 lbs. Average weight 25.376 kilos or 55.944 lbs.			
	Ordered to buy at - 15 cts. - Actual cost per lb. c&f Boston $0.1465	U. S. Currency		
on Head	Kill: Under Salt March 1, 1924. Purchased: March 7, 1924.			
		Swain Trading Company By John Doe, Treas.		

Figure 12: Specimen invoice.

is at once a receipt for the goods delivered to the carrier, a contract between the shipper and the transportation company for the delivery of the goods, an evidence of ownership of the goods, and a basic document in the financing of the shipment.

Through the long period of its development, the ocean bill of lading has become a complicated and comprehensive document, burdened with many highly technical and obsolete terms, filled with clauses exempting the ship owner from various liabilities, understood by very few traders who actually use it. There is also a notable lack of uniformity in bills of lading. The wording and terms and clauses differ from country to country, between different steamship companies, and between different trades. Not only is there lack of uniformity in form and wording, but there is a variety of interpretations of certain clauses. This situation in a document of such importance makes the bill of lading a fruitful source of misunderstanding. Since the importer, unlike the exporter, comes in contact with bills of lading of all kinds and from all countries, it is especially necessary that he be constantly on his guard against clauses or provisions in the document that are unfavorable to his legitimate interests. The banks, also, which accept the bill of lading as security in connection with bills of exchange, must exercise the same precautions.

Attempts have been made to establish international uniformity in bills of lading. Through international conferences, a set of rules known as "The Hague Rules 1921" have been formulated and in the Brussels Diplomatic Conference of 1922 were included in a protocol signed by the representatives of 24 maritime states, including the United States. If ratified by the governments concerned this would become an international convention for giving uniformity to the bill of lading. The British Government, with very slight modifications, has adopted the Hague Rules in the "Carriage of Goods by Sea Act, 1924." The Government of Australia has also accepted the Rules. The Rules, however, desirable as they are to the users of ocean transportation, await general acceptance.

One of the perplexing problems to the importer in connection with the bill of lading has been the practice of some steamship companies in issuing "received for shipment" bills of lading. The best arrangement for the importer is to have the bill of

lading issued after the goods are received "on board" or at least for shipment by a named steamship. If the bill of lading is issued when the goods are delivered at the dock, many contingencies may arise that will delay shipment long after the bill of lading has been issued and forwarded. The steamer may not arrive for many days or weeks after its due-date at the port; or even when the named steamship is in port, the goods may not be loaded but held for a later ship since the bill of lading may provide that the steamship company can substitute a later ship. The result is that the importer may receive the bill of lading long in advance of the goods. He will have no knowledge as to when the goods are to arrive, and if the terms of payment require payment on presentation of documents he may be compelled to pay long in advance of receipt of goods. In the case of steamship lines whose schedules of sailings are regular and may be relied upon, such delays are not usual.

The usual practice on import shipments is to secure local ocean bills of lading providing for transportation from the port of shipment to the port of arrival and, upon arrival, to arrange for shipment by rail to the interior destination. It is possible, however, for the shipper to secure a "through import bill of lading," providing in the one transaction for both the ocean and rail shipment. There are two possible advantages to be gained by this: first, the interior importer may be relieved of some of the details of arranging for transshipment at the port of arrival, these details being looked after by the transportation companies concerned; secondly, the through bill of lading may aid the importer in financing his shipment through his local bank, rather than through a bank at the seaboard. The through bill of lading can be used to advantage only for shipments to those interior points which maintain a United States customs office. Use of the through bill of lading, however, does not waive the necessity for securing from the customs authorities an "immediate transportation" entry at the port of arrival (see page 162). An importer in the United States importing for Canadian clients may secure the Canadian preferential tariff rates by obtaining through bills of lading direct to Canadian points, or by a through bill of lading via an American port containing the clause: "to be forwarded to (Canadian destination) in bond without diversion."

CLEARANCE OF IMPORTS THROUGH CUSTOMS

All goods imported into the United States, whether free or dutiable, are under the control of the United States Customs Service. The process by which the imported shipment is passed through customs and finally released to the importer after all the requirements of the government are satisfied is the "clearance of goods through customs." Congress has established by law not only the rates of duties on imported products but also the general regulations governing customs procedure. The authority for the administration of the customs has been placed with the Secretary of the Treasury. An elaborate and complicated set of rules and regulations has developed in the customs laws and administration, governing all details connected with the clearance of goods. In many respects the tariff and customs laws and regulations of the United States are the most complicated and confusing of any important commercial nation. Only through long experience and by constant vigilance can even the expert in tariff and customs matters hope to keep reasonably well informed on customs complexities. Frequent changes in the tariff acts, accompanied by changes in administrative provisions and by frequent "Treasury decisions" and court rulings on disputed questions, add to the uncertainties.

In view of the difficulties arising from this complexity the importer frequently turns over the details of clearing goods through customs to the custom-house broker who is a specialist in tariff and customs matters, licensed, under established rules and regulations, by the collector of the port to do business of this kind. Many importers, however, handle all customs matters in their own organizations. Large importers may find this the most economical method, and even small importers who handle but few lines of imports may develop the degree of expertness necessary. Whether or not the customs work is handled by his own office or by a broker, the importer should understand the nature of the problems and complexities involved. There should be some one in the importer's organization whose special function it is to keep informed on customs matters and to see that satisfactory service is secured. The inexperienced importer should either employ a reliable custom-house broker, or add to his own staff an expert in such matters. In view of the reasonable fees charged by

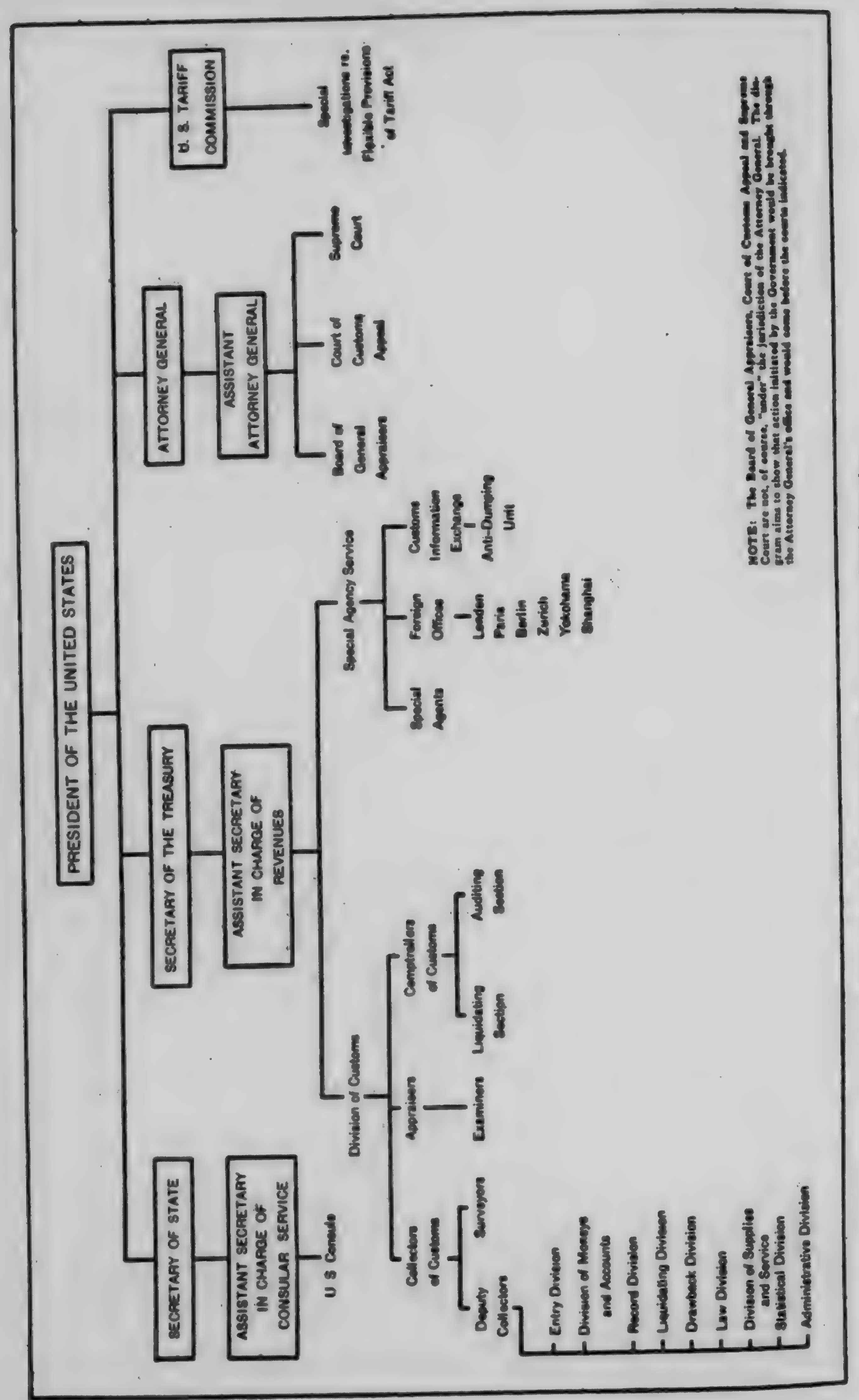


Figure 13: Organization for customs administration.

brokers, it is generally to the advantage of the small importer and the occasional importer to employ the broker. Many large importers also find it more economical in the long run to use the broker.

There are four major operations in effecting clearance of merchandise through customs: (1) entry; (2) examination and appraisement; (3) liquidation; and (4) auditing.

ENTRY

The first steps in the clearance of goods through customs consists of "entering" the goods. Entry consists of filing certain required documents with the collector of customs at a port of entry upon the arrival of the shipment. There are many different kinds of "entry" (more than twenty), each requiring its special form. The kind of entry chosen by the importer is determined by the nature of the goods and disposition to be made of them and other considerations. But every shipment imported, except parcel-post packages less than $100 in value, must be entered with the collector of customs; in some cases a shipment may require, before final release, two or three entries.

Upon notification by the transportation company that goods have arrived, the importer, or his agent, must prepare and file within 48 hours the custom's entry, or take out a general order extension if entry cannot be effected, at the end of the 48 hours. Otherwise the goods are sent to a United States bonded warehouse under "general order." If goods are perishable, or require for certain other reasons quick delivery, the importer may make a "peliminary entry" for immediate delivery. This may even be prepared and passed before the goods are landed and even several days before the steamer arrives. But a formal entry must later be provided. The types of entry most commonly used are the "consumption entry"; the "warehouse entry"; and the "immediate transportation entry."

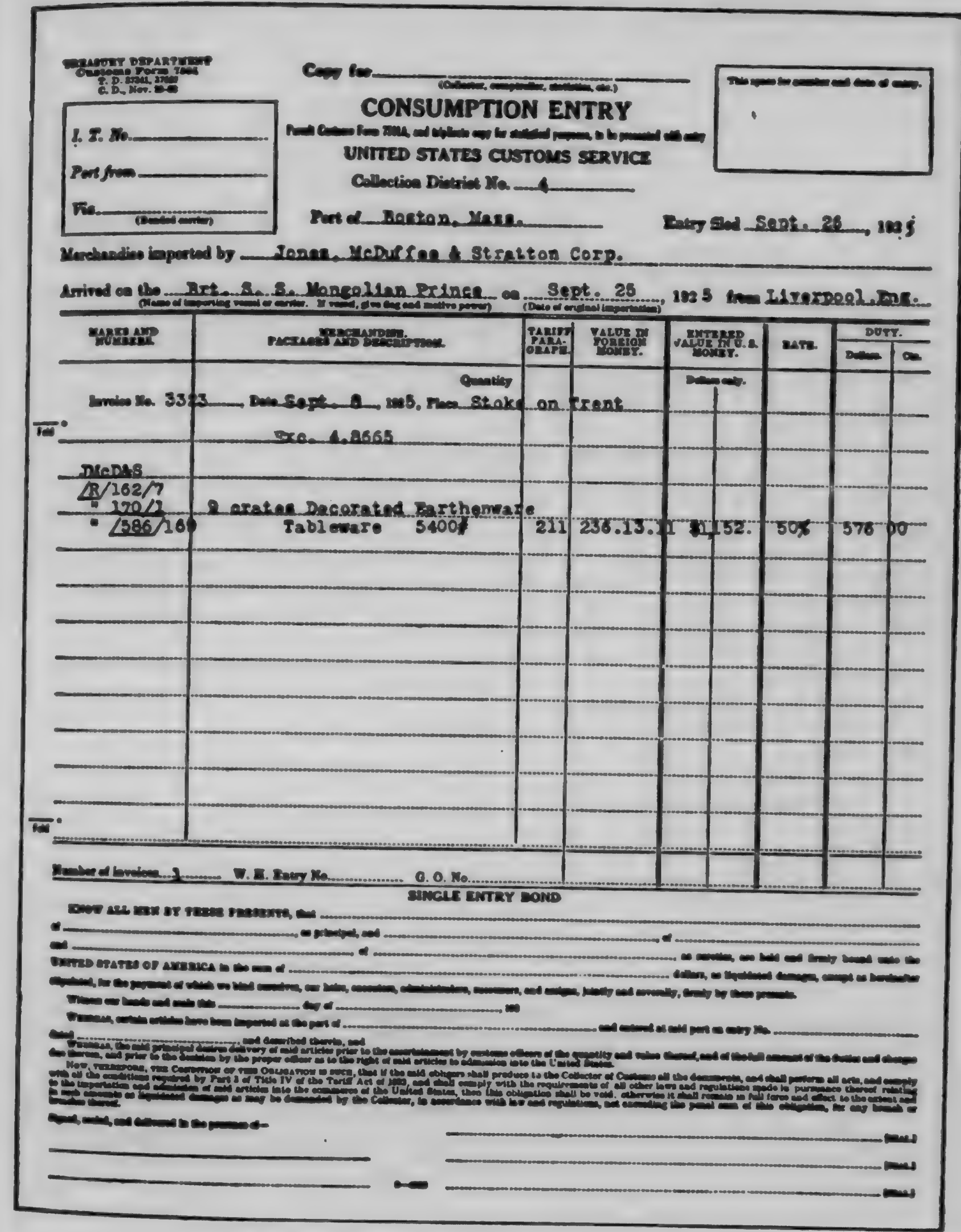
The "consumption entry," or "entry for immediate consumption," is the most frequently used form of entry, since it provides for release of the goods as soon as the formalities of the customs are met. The importer pays the estimated duties, if the goods are dutiable, when the entry is filed, and he may at once remove the goods except such packages as are held for appraisement.

He shall not dispose of them, however, until the appraiser's examination is complete and reported to the collector. Additional packages may be required for examination. To secure entry under this arrangement the importer or his agent must file with the collector of customs the consumption entry form properly filled out, and have attached to it the consular invoice and a copy of the bill of lading.[3] He must also file a bond as security against the faithful performance of all requirements, including the final adjustments in paying duties. The filling out of the entry is an important matter, since determination of duties is partly dependent on it and errors of omission or commission may subject the importer to delays or heavy fines. The entry requires that the importer state the name and nationality of the steamship on which the goods arrived; the date and place of sailing; the number, date, and place of the consular invoice; description of the merchandise; the number of the paragraph of the tariff act under which each item is classified; the "value" in foreign money; the "entered value" in United States money; the rate of duty; and the amount of duty. In some cases, he must state the purpose for which the goods are to be used.

The determination of the classification of the goods so as to indicate the tariff paragraph is particularly important, and frequently very difficult; likewise, the method of determining the "entered value" ((see page 164). The entry form carries also the "declaration of purchaser or agent" as to ownership of the goods, and a "declaration of ultimate consignee" in case the goods were shipped on consignment, rather than by outright purchase. Since the importer on consumption entry must furnish a bond equal to double the value of the goods to protect the government against the full performance of all requirements, the entry form carries a "single entry bond" that must be executed by the importer before goods are released. The importer may, however, execute a "term bond" good for six months or a year covering all his transactions for the period, thus making it unnecessary to provide a bond for each separate entry.

Upon filing of the entry at the custom-house, together with the cash or a certified check to cover estimated duty, if the goods

[3] If the bill of lading or consular invoice has not arrived when entry is made, the importer may provide a "pro forma invoice" and execute bonds against later production of the documents.



TREASURY DEPARTMENT
Customs Form 7504

Copy for ____________ (Collector, comptroller, statistics, etc.)

CONSUMPTION ENTRY

UNITED STATES CUSTOMS SERVICE

I. T. No. ____
Port from ____
Via ____ (Bonded carrier)

Collection District No. 4

Port of Boston, Mass. Entry filed Sept. 26, 1925

Merchandise imported by Jones, McDuffee & Stratton Corp.

Arrived on the Brt. S. S. Mongolian Prince on Sept. 25, 1925 from Liverpool, Eng.

Marks and numbers	Merchandise. Packages and description.	Tariff paragraph	Value in foreign money	Entered value in U.S. money	Rate	Duty. Dollars	Cts.
	Invoice No. 3323, Date Sept. 8, 1925, Place Stoke on Trent						
	Exc. 4.8665						
DMcD&S							
R/162/7							
" 170/1	9 crates Decorated Earthenware						
" /586/160	Tableware 5400#	211	236.13.11	$1,152.	50%	576	00

Number of invoices 1 W. H. Entry No. ____ G. O. No. ____

SINGLE ENTRY BOND

KNOW ALL MEN BY THESE PRESENTS, that ____

Signed, sealed, and delivered in the presence of—

Figure 14: Consumption entry permit.

are not free, the importer or his agent receives a "consumption entry permit," which authorizes the customs authorities at the dock to release the goods. A certain part of the shipment will be held, however, by the customs officials for examination and approval (see page 163).

In the case of dutiable goods, if the importer does not wish

immediate release of the importation, a "warehouse entry" may be filed. Under this, the importer can enter the goods into a United States bonded warehouse without payment of duties at the time of entry. The importer may desire to do this when he plans to hold the goods for re-exporting, when he anticipates a change in rate of duty, or when he has no immediate need of the goods and desires to postpone payment of duty. Goods may be kept in bonded warehouses for a period of three years. The goods are valued at the time the entry is made, but rates of duty are determined under the tariff act in force at the time the goods are later withdrawn from the warehouse. While in warehouse, the goods may be resold, and, under certain conditions, repacked, or even remanufactured (see page 59). Goods in the warehouse may be withdrawn, in whole or in part, at any time for consumption upon payment of duty; for transportation in bond to another customs district where they will be cleared and duty paid; or for exportation without payment of duty. Special forms are used in making a warehouse entry and bonds must be furnished. Free goods cannot be entered in bond.

The "immediate transportation entry" (I. T. entry) gives the importer the privilege of arranging for immediate shipment of the goods from the port of arrival to another customs district for clearance. An importer in St. Louis, for example, may desire to have his imports cleared through the St. Louis custom-house rather than in New York or New Orleans or San Francisco. If goods are shipped on a through import bill of lading, they will be entered at the port of arrival on an I.T. entry; if they have arrived on an ocean bill of lading, the importer may secure their release for shipment in bond in the same way, if entry is made within 10 days after arrival.

The many other forms of entry meet conditions that are for the most part variations and combinations of the above. Worthy of special mention is the "drawback entry." When materials imported are re-exported in the form of manufactured goods, a refund of 99% of the duties paid may be secured, provided drawback application has been made and allowed by the customs authorities in Washington and satisfactory evidence is given that the actual materials imported were re-exported in the manufactured product. Important savings are possible by drawbacks in those manufactured products exported in which dutiable imported raw materials are important, as, for example, refined sugar, paper, textiles, condensed milk, and chocolate products. Certain custom-house brokers specialize in drawback services.

EXAMINATION AND APPRAISEMENT

All goods imported must be examined to see that they conform to the tariff laws, the anti-dumping laws, and other regulations; to see that the merchandise is correctly classified and valued; that the quantities are correctly stated; and that the proper rate of duty is applied. The chief customs officials concerned with these tasks are the appraisers and examiners. At seven larger ports there are also "surveyors" in charge of "inspectors," and at other ports "inspectors" only, who, among other duties, receive the goods, oversee the deliveries, direct the weighing, measuring, and inspection of the merchandise to see that the quantities compare with the permits issued by the collectors.

For ascertaining duty on goods carrying an *ad valorem* duty, and for purposes of administering the Anti-dumping Act, the value of all goods imported must be determined. The appraisement of value and the classification of goods according to the tariff act for the assessment of duties are the chief functions of the appraisers. In New York, where the bulk of United States imports are received, examination and appraisal is done chiefly at the appraisers' stores, an enormous warehouse to which samples of practically all imports are sent for examination. Certain bulky imports are, of course, examined and appraised at the docks, or even at an importer's own bonded warehouse.

When goods have been entered by the importer, a certain part of his shipment (usually one out of ten packages) is designated for delivery to the appraiser's store at the time when the remainder is released for delivery. At the same time the collector of customs sends to the appraiser a copy of the consular invoice and summary of the entry. Whereupon the goods are opened and classified by the appraisers and examiners, the valuation determined, and the documents returned to the "liquidation department" of the custom-house, with the classification and valuations indicated thereon.

Classification of imports. Since it is according to the report made by the appraisers on the tariff classification, valuation, and

description of goods that duties are finally assessed by the collector of customs, the work of the appraiser is of much concern to the importer. The importer should well understand the methods of operation of this department of the customs service. While it is possible, as will be later shown, to appeal from the decision of the appraisers, time, expense, and trouble can be saved by working in harmony with the appraiser's organization. The office is understaffed, the amount of work placed upon the individual examiner is large, and much of the work is in itself difficult and open to dispute.

The determination of the tariff classification made at the appraiser's office is as important as it is frequently difficult. Although many articles are specifically mentioned in the tariff act, a large proportion of articles imported manifestly cannot be enumerated and they are, therefore, classified under general headings or "basket clauses." It may frequently happen that a single import could be logically classified under two or three or more paragraphs of the tariff act, with wide variations in the rate of duty. For example, are cotton gloves with embroidered stitches on the back to be classified as "cotton gloves" at 50% duty, or as embroideries at 75% duty? Are small harmonicas "toys" or "musical instruments," or "articles whose chief component material is brass?" Frequently, the final determination as to the correct classification is made only after decisions by the Board of General Appraisers or after litigation and decision by the courts. In the meantime, the importer may be uncertain as to whether his importations are free or subject to low or to high duty. However, on most staple goods that have been imported over long periods of time there is little or no uncertainty. After the passage of a new tariff act in which many changes in classifications are made, there is likely to be a period of doubt until, by Treasury rulings and court decisions, the doubtful cases are cleared up.

Kinds of "value." The determination of "value" for purposes of computing *ad valorem* duties is a fruitful source of dispute between the importer and the collector. The rules for determining value, as laid down in the Tariff Act of 1922, are many, confusing, and difficult of application. Dutiable value and invoice value are not the same. "Value" is not determined by what was paid for the product. On the entry, the importer must state the

actual invoice values, but he must also declare the value at which he enters the goods for duty purposes.

The Tariff Act of 1922[4] provides for several kinds of "value," as follows:

a) *Foreign value.* This is the market value of the goods, or the competitive price at the time of exportation, in the principal market of the foreign country from which exported, including the cost of all containers and coverings and all other costs incident to placing the merchandise in condition, packed ready for shipment to the United States.[5] This is the value most frequently applied to imported goods. It is the market value of the goods for home consumption in the foreign country.

b) *Export value* is the market price of the goods in the foreign market, when packed ready for shipment, as offered for export to the United States. The importer must use the "export value" if it is higher than the "foreign value."[6] It is the "export price as distinguished from the "home market" price.

c) *United States value* of imported merchandise is the wholesale price at which such or similar imported merchandise is freely offered for sale, packed ready for delivery, in the principal market of the United States with due allowances made for cost of transportation, duty, commission, profits, and selling expenses.[7] This value is to be used when neither the "foreign value" nor the "export value" can be ascertained to the satisfaction of the appraiser; also, when there is no figure or export price specially prepared on merchandise made for some particular import which is not freely offered for sale in the foreign country. It is apparently intended to apply particularly to consigned imports. The determination of the United States price of an imported product according to the provisions of the law is often difficult.

d) *Cost of production value,* to be used when neither of the three methods mentioned above is applicable, is determined on the basis of cost of manufacture in the foreign market at

[4] See *Tariff Act of 1922,* Sections 315, 402, 489. Also, Levett, *Through the Customs Maze,* chap. ii; and Davis, *Proceedings of Eleventh National Foreign Trade Convention, 1924.*

[5] *Tariff Act of 1922,* Section 402 (*b*).

[6] *Ibid.,* Section 402 (*c*).

[7] *Ibid.,* Section 402 (*d*).

the time the goods, or similar goods, were produced, including allowances for expenses, cost of containers, and profits.[8]

e) American value of an imported article is determined by taking the price of a similar competitive article made in the United States, without reference to the actual price paid or to cost of production of the imported article itself. The Tariff Act of 1922 directs the application of this value to all coal tar products imported.[9]

American valuation may also be applied under the conditions named in the "flexible provisions" of the tariff act, whereby the authorization is given to apply American valuation when, upon investigation, it is found that an increase of 50% in the existing duty is not sufficient to equalize the differences in the cost of production between the imported product and a similar competitive product made in the United States.[10] That is, the law permits the President to increase, or decrease, duties named in the act on the basis of investigations determining the adequacy of the tariff to meet differences in the cost of production of any article. If, however, the 50% increase does not meet the difference, the basis of valuation can be changed to the American plan. This, of course, would actually allow a much greater increase in duty than 50%.

f) Value in connection with anti-dumping legislation. In addition to the kinds of "value" provided for in the tariff act, the anti-dumping law[11] defines "purchase price," "exporter's sales price," and "foreign market value" for purposes of that act. If the purchase price or exporter's sales price is less than the foreign market value or cost of production in case foreign market value is not obtainable, the importer must pay a special dumping duty equal to the difference. This applies to all goods, whether free or dutiable. The appraisers are expected to examine imports for value in order to administer the anti-dumping act. Since the methods of determining these values do not correspond to the methods employed in the tariff act, confusion over values becomes doubly confounded.

[8] *Tariff Act of 1922*, Section 402 (*e*).

[9] *Ibid.*, Section 315 (*d*).

[10] *Ibid.*, Sections 315 (*b*) and 402 (*f*).

[11] *Emergency Tariff Act of 1921*. Title II, Anti-Dumping.

In all of the above cases, the determination of value further hinges on the determination of the exchange rates used in converting foreign currencies to American dollars. Here also is opportunity for confusion and misunderstanding.

Penalties for undervaluation. If the importer's valuation is less than the appraised valuation, the importer is subject to heavy fines—namely, "an additional duty of one per centum of the total fiscal appraisal value thereof for each one per centum that such final appraised value exceeds the value declared on the entry." The penalty is imposed in all cases except where there is a manifest clerical error, or upon evidence accepted by the Board of General Appraisers, upon petition by the importer, that there was no intention to defraud or to misrepresent the facts or to deceive the appraisers. If, however, the appraised value exceeds the declared value by more than 100%, the entry is presumptively fraudulent, and the whole shipment is forfeited. The importer has, however, the opportunity of proving his innocence of fraud and to receive refund of penalty duties, unless the goods are to be re-exported. The goods also are not subject to the benefit of drawback.[12] The Tariff Act of 1922 furthermore protects the importer in regard to penalties for undervaluation by making it possible for him to advance the value at the time of entry in order to meet advances that have been made by the appraiser on similar cases then pending on appeal for reappraisement before the Board of General Appraisers. If the increased valuation is not sustained, the additional duty paid will be refunded.[13] This is a protection given to importers in no previous tariff legislation.

Deliberate undervaluation is rare and, when attempted, is likely to be quickly detected. Unintentional undervaluation, however, is frequent. An importer not fully informed as to valuation methods might unintentionally undervalue for any of the following reasons: entering goods at cost after making an advantageous purchase, the cost being below "market value;" obtaining discounts on quantity purchases; rise in price between time of purchase and time of shipment; goods purchased at a market price, but at lower cost than in the "principal market;"

[12] *Tariff Act of 1921*, Section 489.

[13] *Ibid.*, Section 489.

new market price determinations by appraisers, raising market value above what previously had prevailed; "foreign value" higher than "export value," resulting in accusation of dumping; currency depreciation between time of purchase and time of shipment.

The importer, upon making entry, can consult the appraisers or examiners as to classification and valuation to be placed upon the goods. Such opinions are advisory only, and the appraiser is free to place a different value and classification upon the goods when they actually come to him for appraisal. In cases of doubt, however, as on the importation of a new and strange commodity, such opinions are likely to be valuable to the importer as a guide to his declaration of value. It is not, however, always possible for importers to take advantage of this; neither is it always satisfactory in view of the large demands made upon the staff in the appraiser's office.

LIQUIDATION

After the appraisers have reported back to the collector of customs the results of the examination and appraisement, and if the importer files no appeal or protest, the collector of customs "liquidates" the entry. That is, the exact amount of the duties due are calculated by the clerks in the liquidation division of the custom-house and the importer is notified of the amount of duties assessed. If the estimated duties paid at the time the importer first filed the entry were insufficient to meet the final tariff assessment, the balance must be paid within 10 days. If overpayments had been made, a refund is made by the government. The importer is expected to remove at once the goods from the appraiser's store.

AUDITING

Ordinarily, liquidation ends the procedure for the importer. However, the work of the appraisers and the liquidation division are subject to audit by the comptrollers of customs (formerly known as "naval officers"). If mistakes are found, the entry is sent back for reliquidation. Since the audit may not take place until several months after the liquidation, the importer has no assurance that the assessment he has been required to pay for

duties is final and will not be adjusted, or that he has met all customs requirements until long after his goods have been received, and perhaps resold or manufactured and consumed.

PROTESTS AND APPEALS

Within 10 days after notice of appraisement the importer may file with the collector of customs an "appeal for reappraisement." This appeal is laid before members of the Board of General Appraisers, a body of 9 men appointed by the President and sitting at the appraisers' stores in New York. The decision of the board on reappraisement is final.[14]

After the entry has been liquidated, however, a "protest" may be filed by the importer against the decision of the collector on the classification, rate and amount of duty assessed, rate of exchange established, or any other decision or finding of the collector. The protest is heard before the Board of General Appraisers and a decision rendered. In 1923, over 34,500 appeals and protests were filed with the Board of General Appraisers. Because of the lack of clerical help, long delays are experienced in obtaining decisions. All decisions are published in *Treasury Reports*. Either the importer or the collector may appeal from the decision of the board on a protest to the "Court of Customs Appeals," a court of five members, appointed by the President and sitting in Washington, D.C. The decision of this court is final, except on cases involving a constitutional question, upon which further appeal may be made to the Supreme Court of the United States.[15]

The Tariff Act of 1922 makes it possible, also, for any American manufacturer, producer, or wholesaler to file an appeal or protest against the appraisal on any importation by any importer of goods of the kind the manufacturer produces when it is believed that the appraisal on the imported merchandise is too low.[16] This provision carries with it the possibility of long delays in the final liquidation of an import shipment, provided appeals are carried up to the Court of Customs Appeals by the complaining producer.

[14] *Tariff Act of 1921*, Section 501.

[15] *Ibid.*, Sections 514 and 515.

[16] *Ibid.*, Section 516.

DUMPING AND UNFAIR COMPETITION

The Tariff Act of 1922 extends to import trade practically the same prohibition against unfair methods of competition which the Federal Trade Commission Act provides against unfair methods in domestic trade. Under Section 316 of this act additional duties may be imposed on importations in case of unfair price-cutting, full-line forcing, commercial bribery, or other types of practices regarded as unfair competition. The Tariff Act of 1894 (Section 73), as was pointed out in Chapter VI, applied the provisions of the Sherman Act to combinations in the import trade. Anti-dumping legislation is specifically provided in the "Anti-dumping Act, 1921," which provides for special dumping duties upon importations found to be sold at less than foreign market value or cost of production. The administration of the Anti-dumping Act is placed in the Customs Division of the Treasury Department.

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IMPORT PURCHASING

PRINCIPLES AND PROBLEMS

PART II

PROBLEMS

IX

THE IMPORT MIDDLEMAN

1. Snow Trading Company

IMPORTING AS MERCHANT *VS.* IMPORTING AS A COMMISSION AGENT

The Snow Trading Company, primarily commission importing agents in the United States for foreign merchants and producers, in 1924 was considering methods of expanding sales. Overhead expenses had largely increased, but the value of imports of commodities handled by the company had been decreasing, while the rates of commission remained stationary. The question of supplementing importation on a commission basis by also doing a merchant business was considered.

The Snow Trading Company was organized in 1885 as an export and import commission house. Although exporting was an important part of the company's business, for many years importing made up the largest part of the total trade carried on. The company imported a wide range of products, principally raw materials and foodstuffs. The bulk of the company's imports came from the Far East, but it had developed a very important trade in certain European, South African, and South American products. The leading commodities handled were bristles, cocoa, spices, egg products, hemp and other textile fibers, hides and skins, jute, linseed, nuts, chrome and manganese ores, rubber, shellac, straw braid, tanning materials, tin, antimony, vegetable oils, and wool. In the period from 1920-1924 the company's imports amounted to from $7,000,000 to $10,000,000 annually. The import business was largely conducted as a commission agency business, the company acting as the American selling agent of foreign merchants or producers. Orders received from American purchasers were forwarded to the company's principals in the foreign markets, and the company's profit consisted of a commission paid by the foreign shipper. In one or two lines the company did a strictly merchandising business. For example,

the company had established a special "oriental goods" department. Through this department the company brought in art goods, chinaware, and other "gift shop" goods from China and Japan on its own account, stocked them, and resold in the American market. However, this was not the usual policy and was followed in this case because the nature of the commodities made this method necessary. Importing on a commission basis was the method employed for the bulk of the commodities handled. The Snow Trading Company's business had been built up on this basis. As selling agents and commission importers it had an established reputation and was performing a valuable service, distinctly different from the service of the import merchant.

During the period from 1921-1924 the company was faced with a very serious situation in its import business. The overhead expenses of the company had very greatly increased as compared with pre-war, but the commissions received, which were increased during the war by virtue of higher prices, had now receded to about the same as before the war. At the same time, there had been a notable falling off after 1920 in the volume of imports in many of the materials handled by the Snow Trading Company. This situation was made up by taking on some new articles, but hardly made probable any increase in volume over that of the pre-war and war period. Because importing was very highly competitive in the products handled by the company, it was impossible to increase the rate of commission received. To decrease overhead expenses was feasible only to a certain degree. A certain number of employees in the organization could be laid off, but the dismissal of its competent, high-salaried men would be to the detriment of the future expansion of its business. The problem of the company, therefore, was how to increase sales. It was expected that with an improvement in general business conditions there would be an automatic increase of the company's importations. It was possible also that the company could add other lines without expanding its existing organization. The chief method considered, however, was a supplementing for the present method of importing strictly on a commission basis of a policy of direct purchase and resale as merchants. Such a change involved a distinct deviation in the general policy of the company which had been followed for many years.

The following considerations, however, favored the change

in policy: First, if the company imported as merchants for resale in the American market, it could undoubtedly increase the total volume of its business. Due to the uncertainties of business conditions, buyers in the American market were very cautious. Generally orders were placed only for minimum requirements, and many American consumers were not placing with the company orders sufficiently large to satisfy their needs. Such companies, therefore, were supplementing their purchases by going to merchants who carried stock. The officials of the Snow Trading Company felt, therefore, that if they imported as merchants there would be a much better opportunity for larger sales. Second, there would be undoubtedly many opportunities for larger returns per unit of business than were represented by the commissions paid. The company had had long experience in buying abroad, knew well both foreign and domestic market conditions, and would be in a position to take advantage of many opportunities for buying under favorable conditions in the foreign market and reselling at very substantial profits. The officials felt that they ought to be able to capitalize their long experience and knowledge of market conditions abroad to a much greater degree than was possible merely by selling on the small commissions obtained. Third, by buying directly from the foreign shippers the company could undoubtedly obtain better terms. This would be particularly true if the size of their importations were increased. Large buyers in the foreign markets were in better position to obtain both the choice qualities of goods and better terms than the smaller buyers.

On the other hand, there were obvious objections to the contemplated change of policy. First, to purchase as merchants added a larger element of speculation to the business than heretofore existed. While there were opportunities for large profits, there were also opportunities for large losses. While commissions were small under their old arrangement, they were, nevertheless, certain. Second, possibly a greater objection arose from the fact that the proposed method involved an entire change in the company's attitude toward its clients. If the company bought on its own account it would be difficult to maintain a fair-mindedness in its agency relations. It would be difficult to give disinterested advice to its foreign principles (which would eventually jeopardize the holding of its agencies), as such advice

would likely be influenced by the fact that they themselves had stocks of merchandise for disposal. It was a very serious question with the officials of the company as to whether or not they could do both a commission importing business and at the same time import as merchants. Third, further objection arose from the fact that a greater amount of capital would be required if they acted as merchants. This, however, was not a serious problem with the Snow Trading Company since the financial resources of the company were ample to care for any additional outlay of capital that might be required.

Should the company have adopted the policy of supplementing its importing as commission agents with a merchant business?

2. Kleber Cotton Company

IMPORTING EGYPTIAN COTTON FOR STOCK OR ONLY AGAINST ORDER

The Kleber Cotton Company was one of the largest of 40 importers of Egyptian cotton in the United States, most of whom, including the Kleber Cotton Company, were located in New England. The company sold about 70% of its cotton to manufacturers of automobile tires and 30% to mills which spun thread and yarn. Previous to 1921 the company's sales of Egyptian cotton had averaged about 50,000 bales a year. From 1921 to 1924, annual sales amounted to about 26,600 bales.

Egyptian cotton had greater elasticity, was more silky, and of a darker color than the best grades of American cotton. Its principal use was for yarns and fabrics requiring great strength. It was packed in tightly compressed bales weighing 750 pounds; hence, less storage space was required than for American cotton. It was less susceptible to damage from moisture. Egyptian exporters who purchased the cotton from the growers sorted it into well-standardized grades. These grades were recognized both by American importers and by mills. The Egyptian cotton crop began to come on the market in September and was received in the United States in October.

From the monthly prices of Egyptian and American cotton from 1919 to 1924, as shown in Table 1, it was apparent that the prices of Egyptian cotton in the years 1921, 1922, and 1923

Table 1

Kleber Cotton Company

Comparative Prices of Egyptian and American Cotton—1919-1924*

Month	1919		1920		1921	
	Egyptian Sakel	American Upland Midland, N. Y.	Egyptian Sakel	American Upland Midland, N. Y.	Egyptian Sakel	American Upland Midland, N. Y.
	Cents per Pound	Cents per Pound	Cents per Pound	Cents per Pound	Cents per Pound	Cents per Pound
January	....	29.10	133.53	39.26	32.41	16.63
February	....	26.27	151.45	38.77	20.40	13.44
March	....	27.68	145.41	41.20	32.41	11.74
April	....	28.82	145.90	42.30	31.25	12.14
May	....	30.58	111.57	41.25	26.86	12.84
June	....	32.96	97.44	39.27	27.87	12.00
July	....	35.33	108.04	41.20	31.25	12.41
August	58.06	32.10	100.97	36.23	33.12	13.79
September	49.12	30.60	83.30	30.07	59.07	19.95
October	65.33	34.78	68.91	22.60	41.65	19.63
November	79.77	39.40	35.34	18.81	40.08	18.01
December	92.64	39.19	30.29	15.58	42.61	18.30
	1922		1923		1924	
January	32.31	17.94	34.53	27.55	45.0	35.25
February	36.35	17.90	33.12	28.63	44.5	34.00
March	36.05	18.31	33.55	39.55	39.0	28.15
April	35.24	18.06	32.90	28.88	41.0	30.60
May	37.96	20.75	32.06	27.98	45.4	30.30
June	38.12	22.10	30.82	28.52	42.5	29.55
July	36.40	22.27	30.62	26.22	41.0	29.75
August	35.29	21.86	33.20	25.20	46.0	31.10
September	32.26	21.35	35.65	29.06	41.5	25.65
October	32.97	22.73	35.24	30.06		
November	35.04	25.64	50.84	34.73		
December	33.93	25.65	45.79	35.95		

* Egyptian Cotton Prices 1919-1923, inclusive, from the *M. G. C. Manchester Year-Book*, 1924, p. 30. Alexandria quotations of the last Friday in each month. Quotations originally in dollars per Kantar. They have been changed to cents per pound for purposes of comparison. Kantar= 99.04 pounds.

Egyptian Cotton Prices for 1924 were obtained from *Statistical Analysis of the Cotton Industry*, Merchants National Bank of Boston, 1924, p. 84, Table 47.

American Cotton Prices 1919-1924, inclusive, were obtained from the *Standard Daily Trade Service*, October 20, 1924, p. 61.

were higher at the end than at the beginning of the calendar year.

The Kleber Cotton Company purchased from 15 to 20 grades of Egyptian cotton from an English merchant, located in Egypt, who purchased cotton from the growers. The English company sold the cotton in the United States only through the Kleber Cotton Company and in other foreign countries through merchants who had similar exclusive privileges. Prices of cotton in pounds sterling as quoted on the Egyptian Cotton Exchange

were cabled daily by the English company. After it had converted this price to dollars and added its profit, varying from one-quarter to one-half a cent a pound, the Kleber Cotton Company quoted its selling price daily to customers either by mail or telephone. When the company forwarded orders as large as 100 bales of one grade of cotton to the English company, several days' delay in shipment occurred; this was because it was necessary for the English company to fill prior orders or because of the difficulty of securing immediately a large shipment of one grade. From four to six weeks were required for transportation from Egypt to the United States. The Kleber Cotton Company maintained a representative in London who received funds from the company's main office to pay for the purchases of cotton, usually within 90 days from the date of shipment. This representative also made the arrangements for shipping the cotton.

The Kleber Cotton Company always had maintained the policy of purchasing cotton only against the orders of its customers. In 1924 the executives were considering a change from this policy to purchasing for stock. Some of the executives believed that greater profits could be obtained from the increase in inventory values, that the policy could aid them in competition with other merchants, and that the needs of the company's customers would be cared for better in this way.

Most small importing companies that sold Egyptian cotton were purchasing cotton before they received orders for it from their customers. Most of these companies also sold American cotton and sometimes other merchandise. Between 1921 and 1923, two large importers in Egyptian cotton adopted the policy of purchasing only for stock. In the opinion of the Kleber Cotton Company, these importers could sell cotton at a larger profit than those companies which imported only against order.

Because these importers had been quoting lower prices than the Kleber Cotton Company, the executives estimated that sales of from 2,500 to 5,000 bales annually had been lost to competitors from 1921 to 1924. Importers who speculated in Egyptian cotton did not do so in all grades because they could not estimate the grades which their customers would use and could not afford to purchase a large quantity of all grades. Their stocks consisted, therefore, of three or four grades which had marked differences. These importers attempted to induce their customers to purchase the grade nearest to the specific one which was desired.

Prior to 1921, American mills estimated their annual requirements of Egyptian cotton at the beginning of each year. They purchased cotton during the year in large quantities, although not so large as to cause an increase in the price which they had to pay. They usually purchased for four to six weeks' future delivery. From 1921 to 1924 there had been an increasing tendency for mills using Egyptian cotton to purchase in smaller quantities, at frequent intervals, as the cotton was needed for manufacture. Approximately 10% of requests for cotton received by the Kleber Cotton Company were for immediate delivery. These orders were usually for five or ten bales and could not be filled by the company. Mills usually paid slightly higher prices for immediate delivery on Egyptian cotton if they desired a particular grade in a quantity so large that it became necessary to procure it from importers from whom they usually had not purchased.

The question for the company to decide was whether the speculative risk incurred was too great to be undertaken by a conservative importer of Egyptian cotton, in spite of the fact that better service might be given to customers and higher profits made by purchasing in advance.

Should the Kleber Cotton Company have changed its policy of purchasing only against order?

3. Lorenz Company

DECISION OF A COCOA IMPORTING COMPANY TO IMPORT CRUDE RUBBER

The Lorenz Company was organized in 1921 to import and market cocoa beans directly to cocoa and chocolate manufacturers. Between 1921 and 1923 the company was not successful in developing a profitable business, although it had not incurred an actual loss. In the spring of 1923 a new general manager took charge of the company. The new manager, in addition to his experience in the importation and marketing of cocoa, had nearly 10 years' experience in the importation of crude rubber. Because of his experience, he suggested that the Lorenz Company import crude rubber also.

Although the cocoa formerly had been sold directly to manu-

facturers, the new manager intended to change the method of distribution and to sell cocoa through brokers. The two products could be sold through brokers without increasing the direct or indirect charges. The importation of crude rubber thus would decrease the amount of indirect expense chargeable to the cocoa business. The new manager believed that the importation of rubber would be profitable because not one of nearly 120 importers of crude rubber in the United States was located in the territory of the Lorenz Company. Normally the annual consumption of crude rubber in the territory in which the Lorenz Company expected to sell was 30,000 tons. The demand was supplied by a broker in the largest city of the territory and by brokers in New York. One large consumer in the territory purchased rubber directly from Singapore.

The prospects for immediate profits, however, were not great because of the unsteady prices of rubber in the United States. Although this condition had existed since 1920, there had been some improvement in the latter part of 1922 and the early part of 1923.[1]

If the company should decide to be prepared to ship from stock, it was necessary for it to hold a stock of from 200 to 300 tons of crude rubber. To hold stocks of rubber in 1922 and even in 1923 was attended with risk because the market was speculative and frequently wide fluctuations occurred within a single

[1] The average annual price per pound of rubber, as it was compiled by the *Journal of Commerce* from the average of one price daily of Plantation, Hevea, Smoked Sheets, Ribbed Standard quality, at New York, had fluctuated as follows:

Year	Cents	Year	Cents
1917	72.2	1920	36.3
1918	60.2	1921	16.4
1919	48.7	1922	17.6

Selected monthly quotations were as follows:

1922	Cents	1923	Cents
January	19.2	January	32.7
June	14.9	June	27.3
December	27.5		

The imports of crude rubber in the United States, according to the Department of Commerce, Bureau of Foreign and Domestic Commerce, had fluctuated as follows:

Year	Pounds	Year	Pounds
1918	326,000,000	1921	415,000,000
1919	535,000,000	1922	674,000,000
1920	566,000,000		

day. On some days it was impossible to determine the market price of the product. Partial protection against fluctuation could be secured by selling short on the exchange. On the other hand, the company could carry stocks of about 50 tons and fill part of the orders by rubber which would be shipped by a foreign exporter upon receipt of a cablegram order from the Lorenz Company. It might carry no stocks and fill all orders by cablegrams. If this latter policy were adopted, the company would lose those orders which required immediate fulfilment.

When the company was organized, it was necessary to send a representative to South America to establish relations with responsible producers. In the rubber industry, however, through the associations of rubber dealers and rubber merchants, it was possible to secure the names of shippers who wished to export rubber to the United States. Such associations were: the Rubber Growers' Association, with headquarters in London, an association consisting of rubber growers and owners; the Rubber Trade Association, an association consisting of rubber dealers in London; and the Singapore Chamber of Commerce Rubber Dealers' Association, an association consisting of those in Singapore interested in the rubber industry. Membership in one of these organizations indicated a degree of responsibility. Although membership was not restricted except as the name implied, members were required to maintain the organization's standard as to qualities and terms and methods of payment. Further information concerning the financial strength of a shipper could be obtained through American banks. Information concerning his reliability could be had by interviews with American importers who had had relations with him.

It was desirable to establish relations with rubber dealers in Singapore, in London, and in New York, for frequently the prices quoted in these ports differed. Differences were caused by the relation between the demand for and the quantity of rubber in port upon the particular date. Deliveries could be made from Singapore in 60 days and from London in 14 days. It was not necessary for the company to import from Brazil, because little Brazilian rubber was used in the territory in which the company would sell. The chief demand for rubber in this territory came from manufacturers of rubber footwear, rubber hose, and rubber

insulation material, together with general rubber products. Most of these consumers demanded plantation rubber.

In the rubber industry, it was customary for the importer to establish credit with a bank in the country of the exporter. The exporter could draw against this credit upon presentation of the bills of lading to the bank. Thus, the exporter received payment for his merchandise at the time of shipment. The importer depended upon the honesty of the exporter for the quality of the merchandise which he shipped, because the bank took only the responsibility of comparing the quantity ordered by the American importer with that specified in the bills of lading. The Lorenz Company financially was able to establish the necessary credits in foreign countries.

Although the general manager recognized that the company could not expect to make large profits within the first year or two, the experience which the company would obtain, together with the reputation which it would establish among consumers of rubber, would be of value after conditions became normal. Because prices of rubber, however, were unstable it would be unwise for the company to carry large stocks. During its initial experience, the company decided to buy only after the order was received. In accordance with this decision, relations were established at once with rubber exporters in Singapore, London, and New York.

4. Southave Company

A WOOL BROKER AS EXCLUSIVE SELLING AGENT FOR FOREIGN MERCHANTS

In 1919 the Southave Company, a Boston wool brokerage company, considered establishing mutually exclusive agency relations with a wool merchant in Buenos Aires. The Southave Company conducted a brokerage business in both foreign and domestic wools. It was exclusive agent in the United States for a merchant in Australia, in New Zealand, and in South Africa. The company filled orders for South American wool indirectly through local American brokers and merchants in the United States. During the World War purchases in South America, which previously had been less than 4,000,000 pounds annually, increased to between 10,000,000 and 15,000,000 pounds annually.

The Southave Company was satisfied with its agency relations in the other foreign primary markets. The agency agreements were in the form of "gentlemen's agreements," arranged through correspondence and through personal conversations of representatives of the company who had visited the foreign markets. The company believed that formal contracts with the foreign merchants were not of great value, since legal enforcement of contracts in foreign countries was both difficult and expensive. A few competitors who acted as exclusive agents used written contracts which provided for the conditions of sales, limits of territories, commissions, arbitrations of disputes, liabilities of the parties, and cancelation notices by either party.

The Southave Company's agency relations with brokers in primary markets were all mutually exclusive; for example, the company filled orders for Australian wool only through one Australian merchant, who in turn offered wool in the United States only to the Southave Company. The foreign merchant, however, had similar agents in other consuming countries, and the Southave Company acted as agent for merchants in other wool producing countries. Whenever the foreign merchant made sales directly to American buyers, the Southave Company received the regular commission, even though it had not conducted the sale. The brokers' commissions were paid by the foreign merchant at a prearranged rate, usually 2%. The company executed orders for mills, local merchants, and other brokers.

There were certain disadvantages in the exclusive arrangement. A broker not an exclusive agent, could offer its customers a wiser selection since he could purchase wool at the lowest quotations from many sources, and would not be limited to any one merchant's stock in securing quotations on any grade demanded.

The company, however, believed that mutual advantages existed in an exclusive agency relationship. Under an agency agreement, the Southave Company received the only offer to a United States broker of desirable lots of wool obtainable by the foreign merchant. It thus was often in a position to quote below competitors' prices, because the foreign merchant quoted at the open market price or below. Since the Southave Company was the only broker offered a lot of wool by the merchant, it had an advantage as compared to a broker who had to compete for a single lot with numerous brokers. The exclusive relationships had en-

abled the foreign merchant better to understand the grades and qualities needed to meet the demands of the broker's customers. It was an advantage to the foreign merchant to have a representative in the United States market who would give reliable information on conditions and build up orders for its wool. Although the sale of a given grade of wool usually was made by the seller who offered the wool at the lowest price, the buyer was influenced by good-will which had been built up for the wool of those merchants whose grades and deliveries could be relied upon.

The foreign merchant often sent large lots of wool on consignment to the Southave Company after they had obtained the company's confidential advice on the probable trend of the market. The shippers required no advance payment from the Southave Company on consignments. If the market became unfavorable before the wool arrived or was sold, the company advised reconsignment to a more favorable foreign market.

The company never purchased on its own account. It preferred to do a strictly brokerage business to avoid speculative risks and capital investments. By giving its customers the full benefit of prices, the company was able to gain their confidence. The foreign merchant, too, thus was assured that the company was not taking an extra profit above its commission. Any advantage offered in price would stimulate sales in the United States. For consigned shipments, it was illegal to retain the margin between the actual sale price and the minimum price limit set by the consignor, thus to take both the commission and a profit on the sale.

While inadequate stocks of a single merchant in a foreign country might prevent the Southave Company from filling the requirements of its customers, nevertheless, the grade desired by its customers usually could be secured by the merchant at the auctions in Australia and New Zealand. There were no such auction sales in South America, however. In Buenos Aires, wool was sold by merchants and growers at a large central market. In Montevideo, wool was marketed by private sales at numerous individual warehouses. The lack of auctions made it difficult for a South American merchant to meet requirements for those grades of wool which he did not have in stock. There were few real brokers in South America. Even those who claimed to be brokers usually made a practice also of purchasing on their own account.

During the World War, when South American purchases of the company were increasing, the company had difficulty in meeting some of the requirements of its customers when it followed its usual method of executing orders for South American wool indirectly through merchants or brokers in the United States. The extra commission to another broker, furthermore, often made it necessary for the company to lower its regular commission or to charge a commission to the buyer instead of to the seller. In purchases made from merchants it was a customary practice for the seller to pay the broker's commission, and this was included in the quotation to the buyer. When the company purchased through another broker, however, the quotation which it received included the other broker's commission. To collect a commission the Southave Company found it must either bargain with the other broker for a share of the commission or charge the buyer a commission. While buyers usually were willing to pay this commission for the service rendered by the broker in securing the wool desired, they resented a double brokerage charge.

The company estimated that the market for South American wool would continue larger than the pre-war market. Buyers from mills were acquainted with the grades offered, and South American merchants had learned what merchants in the United States demanded. Because its policy of exclusive agency relationship had been successful in other primary markets, and because it believed that the same advantage would exist in South America, the company decided, in 1919, to act as exclusive agent as soon as a suitable merchant could be found. In accepting an exclusive agency, the company considered the dependability of the foreign merchant, his information in regard to the customs and demands in the United States, and the adequacy of his organization for purchasing and grading wool.

In 1920 the Southave Company was informed through its bank of an opportunity to become exclusive agent for a newly established Argentine wool merchant. Members of this new company were thoroughly acquainted with the buying of Argentine and Uruguay wool and understood the demand of mills in the United States. One of the members had been in the United States several times and had worked in mills there. The reputation and financial standing of the new company were high and it was building up an excellent organization for buying in both Argentina and Uruguay.

Should the company arrange for exclusive representation with the South American merchant?

5. Morden Importing Company

ACCEPTANCE OF IMPORTED HIDES ON CONSIGNMENT BY A BROKER

The Morden Importing Company was organized in Philadelphia in 1900, for the purpose of importing hides, skins, and tanner's materials. It acted as an exclusive sales agent for hides and skins on a brokerage basis for exporting companies in Calcutta, Stockholm, Buenos Aires, Yokohama, and other important centers. Exclusive agency contracts gave to the Morden Importing Company exclusive territories, limited to certain sections of the United States or for the entire United States according to volume of sales of the different materials. The company agreed not to sell other hides and skins of the kind sold by the exporter it represented.

Among other tanning materials, the Morden Importing Company sold tanner's sumac, which was used for bleaching purposes. Since tanners increasingly demand sumac on spot delivery, the company undertook the importation of this material on its own responsibility as a merchant. Sumac was sold to tanners from stock in Philadelphia. The company had built up a reputation as a merchant in sumac in the eastern part of the United States. The average order for sumac in 1903 was 1,200 tons, but as the demand for kid shoes decreased gradually, requirements of sumac were reduced until, in 1923, the average order was for 150 tons. Most of the sumac was imported from Sicily through the port of Palermo.

In 1923, foreign exporters of hides, skins, and tanner's materials more frequently were requesting the company to accept shipments on consignment for sale on commission instead of as an exclusive agent on a brokerage basis, or as a merchant.

As a broker, the Morden Importing Company received notification from companies in foreign markets to sell a specified quantity of hides, or received requests from American customers to buy a specified type and quantity of hides. The company made the necessary connections between vendor and buyer, received approval of both parties as to terms, collected from the buyer the selling price, deducted a brokerage which varied from 1% to 2%, according to the distance and cable charges involved, and placed the balance to the creditor of the seller. Beyond these functions, any duties performed by the Morden Importing Company, such as attention to prompt forwarding of materials from Philadelphia, were a matter of service to American customers.

As an import merchant of sumac, the Morden Importing Company bought outright from exporters at Palermo, usually on a c.i.f. basis. Payment was by sight draft under a letter of credit, payable at Palermo on presentation of shipping papers. Although the company, in 1923, usually bought after receiving specific orders, it had to carry stock for occasional rush demands. One instance, in 1923, typified the difficulties met in merchandising sumac. The company contracted to deliver 500 tons of sumac at \$52. Sumac was ordered at \$22 f.o.b. vessel, Palermo. An initial shipment of 50 tons was received. Before the second delivery was made, the market price in the United States rose from \$52 to \$72. The exporting company notified the manager that, because of infrequency of sailings, it was impossible to make regular shipments, and the same excuse was given when other shipments during a period of six months were delayed. In November the market price of sumac had risen to \$82, and the Morden Importing Company in order to meet its contract was forced to purchase at higher prices than the agreed sales price of \$52.

As a broker, the company had an assured income with expense only for an office, a small office force, and a sales force. Sales were limited, however, to the volume which happened to be offered by sellers or requested by buyers, since all the company did was to bring about an agreement between vendor and buyer and attend to the payment of bills. As a merchant, it was possible for the company to make higher profits on a transaction than could be secured on a brokerage or consignment basis. On sumac, the mark-up approximated 100% on cost. Investment in stock was involved, however, and there was the constant likelihood of heavy losses as in the instance mentioned.

The trade in goat and kid skins from India also exemplified conditions to be met by importers in the United States. Skins were bought from traveling native collectors by export companies

in Calcutta, or by intermediate collectors who sold to such exporters. The Morden Importing Company arranged to represent as a broker on a percentage basis only export companies which had a sound reputation for conformance to quality, and for standardized classification and specification of hides. In isolated instances, hides had been accepted on consignment from other vendors, but the manager had noted either that the exporters were billing at more than the current market rate, or that the price quoted was intended merely as a starting figure on the basis of which the Morden Importing Company as a commission agent was expected to bargain. This was an embarrassing procedure which the company did not desire to follow.

The manager occasionally had been notified of shipments of sumac on consignment from new exporters without previous correspondence. In one such instance the exporter was an agent of American typewriters, and in another instance was the owner of an organization for the exportation of citrus fruit. These evidently were attempting to dispose of material upon which they hoped to make a large profit and had shipped to the Morden Importing Company because it was known to buy such materials. If the company adopted a policy of accepting shipments on consignment, repetitions of this practice of dumping were likely to occur.

If the company undertook sales on consignment, the custom in foreign trade demanded that approximately 70% of the cost of material be advanced upon acceptance of the consignment. Commissions averaged 5% on selling price. No additional sales force was necessary beyond that employed for brokerage of hides and sales of tanning materials. The same attention had to be given, however, to customs details, warehousing, and forwarding, as was required when the company acted as a merchant. On lines distributed upon the exclusive agency basis the company could not undertake sales of consigned merchandise on a commission basis. The Morden Importing Company had retained only these exporters upon whom it found it could rely. The acceptance of shipments on consignment indiscriminately was likely to injure the company's reputation for selling materials of fine quality. Furthermore, if the company occasionally refused shipments, its reputation for reliability among foreign firms might be affected.

Credit investigation was slow and usually was undertaken only through banks with foreign correspondents. The difficulty already encountered—namely, that foreign exporters did not state the actual price at which they were willing to dispose of materials—was ingrained in the trade. Customers, moreover, were likely to ask whether prices quoted by the company were on the brokerage, consignment, or merchant basis. The greatest profit was possible on a merchant basis; the percentages obtainable as a broker were less than those obtainable on a consignment. If the sales were made on a consignment basis, the customer might not be assured of the quality furnished by the company as a merchant, or might not be assured of the low price obtainable by purchase from a competing broker. In either instance the Morden Importing Company might lose customers. On the other hand, imports on consignment could be made from an almost unlimited number of vendors who were particularly desirous of securing 70% of total payment upon acceptance of the goods. The policy offered a middle ground between an assured income as a broker, and high profits with possibility of loss as a merchant, and also a middle ground in regard to the investment of capital.

The company had acquired the reputation for reliability in regard to selling materials of fine quality at satisfactory prices, both as a broker and as a merchant. The manager did not believe that the possibility of increased profits could outweigh this reputation. He decided not to accept consigned shipments for sale on commission.

6. Harcourt Company

RETAINING COMMISSION CLAIMED BY WOOL BROKER ON RECONSIGNMENT

In December, 1923, the Harcourt Company, a long established company of Boston wool brokers, was asked to advise on a consignment to Boston of about 1,000,000 pounds of wool from its representative in Montevideo. Inasmuch as wool prices in the United States were rising and consumption of wool by domestic manufacturers was increasing, the Boston broker advised immediate shipment.[1] Arrangements were made to advance $100,000 on the consignment. The consignment consisted of

[1] See page 192 for footnote.

about 60 lots of different types and grades ranging from 2 bales to 200 bales in each lot. A bale weighed about 1,200 pounds. Minimum prices set by the Montevideo merchant ranged between 27 and 61 cents a pound in bond at Boston. Each lot had a different quotation, depending on grade, estimated shrinkage when scoured, and size of the lot.[2]

The Uruguay merchant, however, delayed shipment of the wool until six weeks later than expected. By the time the wool arrived in the United States in April, 1924, the demand for foreign wool had decreased, because prices on domestic wool had become relatively lower than the cost of similar grades of foreign wool after duty was paid. Although prices on some grades of foreign wool were above the prices asked by the Montevideo merchant, few sales were being made at the quoted prices. Prices of foreign wool held in bond in the United States were kept higher than domestic prices by merchants because of the higher level of wool prices in England, rather than because of actual sales in the Boston market.

[1] See page 191 for footnote reference.

WOOL PRICES, 1923*

1923	Montevideo 50's in Grease, Duty Paid	Buenos Aires 40/44's in Grease, Duty Paid	Ohio and Pennsylvania 3/8 Blood
January	$0.61	$0.46	$0.551
February	.62	.46	.565
March	.63	.44	.559
April	.60	.43	.555
May	.60	.42	.559
June	.57	.41	.565
July	.55	.41	.560
August	.53	.41	.542
September	.52	.41	.528
October	.53	.41	.520
November	.58	.45	.525
December	.60	.50	.542

*Prices Furnished by Bigelow, Reed & Company, of Boston, and by the Harvard Economic Service.

WOOL CONSUMPTION BY UNITED STATES WOOL MANUFACTURERS, 1923*

August	48,232,955 pounds
September	46,615,997 pounds
October	51,814,976 pounds
November	50,278,832 pounds

**National Association of Wool Manufacturers Bulletin*, January, 1924.

[2]TYPICAL QUOTATION FROM CONSIGNMENT INVOICE

Description	Quantity	Price (Cents per Pound)	Estimated Shrinkage	Price on Scoured Basis
56's superfine × breds	103 bales	$0.51½ + in bond	37	$0.62
56's superfine × breds	42 bales	.51 + in bond	37	.81
56's superfine × breds	25 bales	.53½ + in bond	34	.81
44/46's superfine × breds	29 bales	.33½ + in bond	28	.46
40's superfine × breds	5 bales	.28¼ + in bond	26	.38
56's Bradford Style, some burrs	15 bales	.46 + in bond	39	.75

The broker sold only 4,000 pounds within the price limit. Because demand in England was active and because prices there were relatively higher, the broker advised reconsignment of the remainder to England. Prices in England had been rising steadily and it was expected that prices at the opening of the London auctions on May 6 would range higher than the closing prices on April 1. In England the wool was sold below the prices stipulated by the Uruguay merchant but at a price nearly 3 cents higher than would have been received in the American market. The Boston broker was reimbursed for the $100,000 advanced plus interest. In addition, the company's usual brokerage commission of 2% was paid. About three months later, the Uruguay merchant requested a refund of one-half the commission. The refund requested amounted to about $5,000.

The Harcourt Company acted as exclusive agent in the United States for a foreign merchant in each of the primary markets of Australia, South Africa, London, Argentina, and Uruguay. An exclusive agency relationship had existed with the Montevideo agent for 10 years. Sales of this foreign merchant in America had averaged approximately 4,000,000 pounds a year. The actual volume varied from year to year, depending upon the conditions of the market and type of wool demanded by American mills. The business offered by the Montevideo merchant did not exceed 15% of the total business of the broker.

Sales usually were executed on order, but consignments sometimes had been advised when the market seemed favorable. The last previous consignment from Montevideo had been in 1921. All former Uruguay consignments had been disposed of in the United States at prices above the limit set by the foreign merchant.

In previous cases of reconsignment for other foreign merchants the broker had received his full commission, regardless of the prices received by the foreign merchant by reconsignment. The broker's opinion was that the service performed in studying market conditions and in advising reconsignment to a more favorable

foreign market was equivalent to making the sale. There was no established custom in the trade with respect to commission on reconsignment; the practice depended on individual relations between agent and principal. A few brokers who acted as exclusive agents for foreign merchants sometimes waived or reduced their commission when it was evident that the foreign merchant had lost through reconsignment. The broker did not wish to refund one-half of the commission and thus establish a precedent which might cause similar requests by other foreign merchants or other concession to the same merchant. Had the wool been shipped without delay, moreover, it could have been sold profitably in the American market.

Yet, the company did not desire to take substantial risk of losing the agency. No written contract existed with the foreign company. Written contracts for exclusive agency relationships were not customary in the wool trade. Reconsignments were not frequent and a similar situation might not arise again for several years. The Uruguay merchant claimed that similar reductions in commission had been allowed by other American brokers under parallel circumstances to other South American merchants who had exclusive agents in the United States. He did not consider that in addition to a loss on his wool he also should pay a duplicate commission, one to the American broker and another to the English broker.

Because it did not wish to set a precedent contrary to its customs and in spite of the risk of losing the good-will of the South American merchant, the Harcourt Company decided to retain the commission, giving a full explanation of reasons for the refusal to refund the commission.

7. Brisbane Wool Company

SPECIALIZATION IN ONE TYPE OF RAW MATERIAL FOR ONE TYPE OF MILL

The Brisbane Wool Company, a long established company of Boston wool merchants, sold about 90% of its wool to large New England worsted mills. Sales to worsted mills usually were made through mill buyers who visited the merchants in Boston and selected the lots of wool to meet their requirements. The

remaining 10% of the wool was sold to woolen mills by traveling salesmen or to other merchants who specialized in wool of the grades desired by woolen mills. The company usually employed one or two salesmen to sell to woolen mills. These salesmen also visited the smaller worsted mills.

In the latter part of 1923, when both the woolen and the worsted industries were in a period of inactivity and competition between salesmen for the woolen mill trade was unusually keen, an executive of the company suggested that in order to curtail expenses the sales force be discontinued and that the company confine its efforts to sales in large lots to worsted mills. He believed that the amount of money spent in paying expenses of salesmen who sold only 10% of the product was disproportionate to the percentage of total sales. As an alternative, however, it was suggested by another executive that the company could increase its sales force to about six men and attempt to develop the woolen mill trade into a position of greater importance to the company.

The Brisbane Wool Company purchased and sold both foreign and domestic wools. It had permanent buying representatives in the principal foreign markets. Foreign wools were purchased in those grades which the company believed would be in demand by the worsted mills. Domestic wools usually were purchased in an ungraded or poorly graded condition and were graded and sorted in the company's own warehouse. Thus, in every purchase, especially of domestic wool, there was a quantity of wool unsuited to the demand of the worsted trade.

Woolen mills could use wool of shorter staple than the wool used by worsted mills. The Brisbane Wool Company ordinarily purchased combing wools used chiefly in making worsted yarn instead of the shorter fiber clothing wools, consumed by woolen mills. All wools in the process of combing yielded a small percentage of noils or short fibers that were used by woolen manufacturers. Length of fiber alone, however, did not determine quality in the price of wool, since the fineness of the fiber, milling or felting properties, and spinning qualities of the wool were factors in determining its use. Woolen mills often used fine quality short-fiber wools and lamb wools in the manufacture of women's fancy dress goods, while worsted mills sometimes used poor quality long-fiber wools in some grades of worsted cloth.

Under modern mill practice, some clothing wool is used in the worsted process, and vice versa.

About 100 worsted mills took 90% of the company's wool each year. Salesmen were not used in making sales to these mills. The mill buyers preferred to visit the various Boston merchants, look over the stocks of wool, bargain in price, and purchase lots sometimes as large as from 200,000 to 300,000 pounds. Often sales were made by telephone quotation or by personal visits to the mills by a member of the company. The reputation and reliability of the Brisbane Company often aided in making sales even at slightly higher quotations than those offered by competitors.

Woolen mills were, as a rule, smaller than worsted mills. They usually purchased from samples shown by traveling salesmen. Purchases were made frequently and in smaller lots than purchases by worsted mills. Orders were sometimes as small as 2,500 to 5,000 pounds. Mills were scattered so widely that it was necessary to furnish salesmen with automobiles. The Brisbane Wool Company estimated that it would require six salesmen to cover adequately the New England woolen mill trade. A salesman could make about four calls a day and he would have to call on each mill from one to three times a week. The average salary of a salesman was $2,500 a year, and the annual costs per salesman, including salary, probably would total about $6,000. A salesman ordinarily was expected to sell enough wool so that his entire expenses would be not over 1% of his sales. In actual experience, sales per salesman varied above and below this figure, depending on activity in the woolen textile industry and competition between sellers.

By increasing sales to woolen mills the Brisbane Wool Company might be less affected by changes in style from worsteds to woolens. It often occurred that popularity of worsted products resulted in a decreased demand for woolens; conversely, activity in the woolen industry often was accompanied by slack demand for worsteds. In the fall of 1923 worsted spindles were less active than woolen spindles.[1] The company purchased wool from three to nine months ahead of anticipated demands from mills. It was the function of the merchant to buy wool during the clipping season and carry it until purchased about six months later by mills for manufacture. When the wool was resold, prices might

[1] See page 197 for footnote.

be quite different, depending on style changes and business conditions. No futures market in wool existed.

The Brisbane Wool Company did not wish, however, to rely upon the woolen mills except as a market for those grades of wool which it had purchased and could not sell advantageously to worsted mills. It had found that small woolen mills were sometimes poor credit risks. In its worsted mill trade, the company had had only one serious credit loss in over 15 years. The small purchases by woolen mills increased accounting difficulties and warehouse details. The woolen mills were often more particular and exacting over grades than were the large worsted mills.

Worsted mills which purchased in large lots did their own combing and sold the noils to noils merchants or to woolen mills, or used the noils in woolen mill departments of the same company. When a wool merchant employed salesmen, good-will usually was attached to the salesmen as well as to the company represented. Price was the determining factor in making sales, but salesmen through frequent visits often established friendly personal relations with woolen mill buyers or treasurers. The Brisbane Wool Company wished to uphold the prestige of its name in the wool trade through dependability of grades and through personal relations between its executives and officials of large worsted mills.

[1] See page 196 for footnote reference.

PERCENTAGE ACTIVITY OF WOOLEN AND WORSTED MACHINERY IN THE UNITED STATES*

(Ratio of Machinery Hours That the Mills Ran to Single-Shift Capacity Machinery Hours)

Month	Spinning Spindles	
	Woolen	Worsted
January, 1923	91.6%	95.4%
February, 1923	94.6	95.8
March, 1923	98.6	102.1
April, 1923	102.2	109.5
October, 1923	88.0	87.0
November, 1923	88.7	83.0
December, 1923	80.7	74.2
January, 1924	86.4	72.8

* Merchants National Bank of Boston, *Monthly Statistical Summary of Woolen and Worsted Industry.*

It was necessary, furthermore, to give salesmen visiting woolen mills responsibility in setting prices. No fixed sale prices could be established since each sale was made on a bargaining basis in competition with other salesmen. When competition was keen, it was not unusual to find as many as 15 salesmen waiting at a single mill. Such competitive bidding from mill to mill often made prices fluctuate. Thus individual sales frequently were made at prices below the ruling market quotation.

If the company should not sell to woolen mills it could sell the 10% of its wool not suited to worsted mills to merchants either directly or through brokers by quoting about 2% below the current market price. Merchants paid cash in 10 days, while mills expected terms of 60 days net. Selling to merchants, therefore, reduced credit risk. Merchants were easily accessible, and sales expense would be small. Although the cost of selling through salesmen to woolen mills averaged in the long run about 1% of their sales, it was estimated that sales to merchants at 2% below market prices would be justified by intangible savings in reduced credit risks and reduction in the time spent by executives and employees in dealing in small lots.

The company decided to discontinue its sales force and to sell its stock of wool suitable for woolen mills to merchants at about 2% below market prices. It would concentrate its efforts on the worsted mill trade.

8. Caddington Cotton Company

SPECIALIZATION IN THE IMPORTATION OF EGYPTIAN COTTON

The Caddington Cotton Company, cotton merchants, had offices in Boston and branch sales offices in three large New England cotton manufacturing centers. From 1910 to 1923 it had imported annually from Egypt 10% of its cotton. In the fiscal year ending July 31, 1923, it sold 5,000 bales of Egyptian cotton. In October, 1923, it considered the employment of an English specialist in Egyptian cotton, so that it might expand its importing business. The larger part of the Egyptian cotton which was imported into the United States was used by cotton mills in the manufacture of fabrics for automobile tires; a small quantity was used in the manufacture of certain kinds of thread.

The relations which the Caddington Cotton Company had established with an Alexandrian cotton merchant, when it first imported Egyptian cotton, were satisfactory and had been continued. A disadvantage of importing Egyptian cotton through an Alexandrian correspondent was that the company had to depend upon him to deliver the exact quality of cotton desired by the mills. A mill would order a grade which it had used before and expect the same quality, but the quality of a grade varied from year to year. Egyptian cotton was produced under primitive agricultural methods, with the result that the cotton of each native grower was composed of several grades. Classification of Egyptian cotton was unsatisfactory. The correspondent of the Caddington Cotton Company sold 31 grades. Since the quality of grades varied from year to year, only specialists who could distinguish qualities could advise the mills. If the cotton received by an importer did not fulfil the specifications as to quality or grade, he submitted a complaint to an arbitration commission in Liverpool. The awards made to the Caddington Cotton Company by the Liverpool commission had been equitable, but they required from one to three months to adjust.

It was customary for the American importer to pay for all purchases of Egyptian cotton 90 days after the date of shipment. The Caddington Cotton Company sometimes sold cotton to the mill and received payment 10 days after its delivery, or it financed the mill's purchase of cotton for a period of 60 or 90 days. Upon receipt of an order from a mill for Egyptian cotton, the Caddington Cotton Company purchased, at the best rate offered by foreign bankers in America, a 90 days' letter of credit in Egyptian pounds. The Caddington Cotton Company might have delayed the purchase of exchange in anticipation of better exchange rates, but it was the policy of the company not to speculate on exchange.

Cable quotations for immediate shipment from Egypt were received by the Caddington Cotton Company from its Alexandrian correspondent each morning. These cables, which gave the price of cotton delivered in Boston, quoted only the key types of cotton; the price of the remainder of the 31 types was determined by a table of differences. The Caddington Cotton Company received a new table of differences at the first of each week which obtained throughout the week unless changed by cable from Egypt. The

Caddington Cotton Company sold any quantity less than 500 bales of a type at the quotation received.

From 1910 to 1923 the importation of Egyptian cotton was incidental to the domestic operation of the company. Ordinarily about 10% of each year's sales were in Egyptian cotton. The same executives had charge of the purchase of the Egyptian cotton and the American cotton, and the same salesmen sold them. Many of the customers of the Caddington Cotton Company used Egyptian as well as domestic cotton. Although it was customary for them to buy through one or two other companies, the Caddington Cotton Company wished to be able to supply its customers with their complete requirements.

In buying directly from Egyptian merchants, the company incurred risks. Under the credit agreement with the banks, it had to pay for the cotton received, whether or not it was of the type ordered. The guaranty of the company to the cotton mill that the quality which it ordered would be delivered sometimes was difficult to maintain, because of the difference in quality of one grade from one year to another caused by varying weather conditions. The company had to carry exchange risks also.

The company was of the opinion that it could not increase its sales of Egyptian cotton until it had secured an expert in Egyptian cotton. This would result in better service to its customers because of the multiplicity of grades of Egyptian cotton. A man who could distinguish the grades and who knew their uses was required to advise American mills which grades to buy. As the quality of a grade changed from one year to another, a specialist could advise the mills which grade to substitute for the one it had used before. Samples of each would be sent to him each year by the Alexandrian correspondent. It also would be an advantage to have in the organization a man acquainted with the business methods used in Egypt.

The employment of a specialist would enable the Caddington Cotton Company not only to give the mills better service but would also enable the company to act as a broker for one of the three or four companies in the United States which specialized in Egyptian cotton. As a broker, the only risk of the company would be the failure of the importer to pay the commission. The disadvantage, however, of acting as a broker was that the customary commission paid to such agents was only $1 a bale, while the

Caddington Cotton Company, acting as a merchant, frequently netted from $2 to $3 a bale. The company knew of no available specialist in the United States since there was little opportunity for an American to specialize in foreign cotton. In England, it was not uncommon for cotton merchants to have foreign cotton departments. A man who had been trained in one of these departments was qualified to fill the position in the organization of the Caddington Cotton Company. Because of the depression in the British cotton industries in 1923, the Caddington Cotton Company knew that it could obtain a satisfactory man there. The salary of the specialist would be between $4,000 and $5,000 a year. With a net profit of $2 a bale, it would be necessary for the specialist to increase the company's sales of Egyptian cotton by at least 2,000 bales in order to cover his salary.

In expanding its operations, however, the company would have to meet the competition of three or four European and Alexandrian companies which specialized in Egyptian cotton and had established selling offices in the United States. These branches carried stocks of cotton and were able to make immediate deliveries. The men in charge of the offices were men who had experience with Egyptian cotton, usually in Alexandria. As the company had conducted its business in the past, it had carried no stocks, but depended upon immediate shipment from Egypt by its correspondent upon receipt of a cable. Delivery from Egypt was made in four weeks. The company did not carry stocks, because it estimated that carrying charges, including interest and storage, would decrease the profit on sales by three-eighths of a cent a pound per month. Furthermore, if the company imported stocks to hold in the United States it would incur an additional risk. As a result of speculation of importers of Egyptian cotton, at nearly all times between 1920 and 1923 mills could purchase several grades in the United States for less than the Caddington Cotton Company could purchase the same grades in Egypt. The company had maintained its sales volume because the grades which it sold were not those in which importers had speculated. Because of the small Egyptian crop, the risk of carrying stocks was increased by possible price fluctuations manipulated by speculators. Some importers attempted to hedge their holdings in Egyptian cotton by selling futures upon the New York Exchange, but they were not always successful, as the movement in price

in Alexandria and New York did not necessarily correspond.

There was a further disadvantage in specializing in Egyptian cotton from a long-time view-point. As the chief use of the cotton was for automobile tires, a change in the type of construction or in the type of tire might diminish the demand for Egyptian cotton. On the other hand, with the exception of the English specialist, the company would not have to increase its overhead expense and it could continue to develop its business in domestic cotton. In its previous experience in the importation of Egyptian cotton, the company had established a reputation which was of advantage, since mills hesitated to buy Egyptian cotton from new importers.

The Caddington Cotton Company secured an Englishman who was a specialist in Egyptian cotton to come to the United States to manage the purchase and sale of Egyptian cotton.

9. Rockmont Import Company

REVERSAL OF POLICY AFTER THE WAR IN ACCEPTING IMPORT ORDERS FROM MERCHANTS

Previous to 1914 the Rockmont Import Company of Baltimore imported from $50,000 to $75,000 worth of toys annually. About 80% of its imported toys came from Germany, the remainder from France, Japan, and China. The company customarily sent a buyer to Germany in February and March to collect samples, on the basis of which orders were to be secured from American retailers for fall delivery, and to place orders for stock to be delivered during the summer and early fall. The company sold to department stores and other retailers in the central and southern Atlantic Coast states of the United States. Most of its orders for imports were taken in the spring and summer for delivery directly to retailers in the fall; a small quantity of foreign stock was carried to fill orders for immediate delivery. Sales on import orders usually were made on a 10% or 15% margin above landed costs.

From 1915 to 1919, when war conditions made it impossible for the Rockmont Import Company to trade with Germany, the company's customers, who formerly had ordered in advance from samples, became accustomed to buying from stocks in the

United States for immediate delivery. The company slightly increased its purchases of American-made toys until the total sales volume was about the same as before 1915. By the spring of 1924, however, the company's purchases from Germany reached pre-war size, but the company continued to sell entirely from stock. Early in 1924, inquiries for quotations on import orders showed the company that there was a desire on the part of many of its customers to return to the pre-war method of purchasing. The executives of the company were undecided whether to quote on direct import orders and thereby encourage a return to pre-war buying customs, or to refuse such orders and sell from stock only.

Previous to 1914 all German merchandise was quoted in marks. Exchange rates were stable; deliveries could be relied upon; quality of goods could be depended upon to conform to samples; and in case of disputes, importers had recourse to German courts.

Immediately after the World War the Rochmont Import Company's purchases in Germany were small because of unstable conditions in Germany and uncertainty regarding possible American tariff legislation. The mark had depreciated steadily until it was worth less than $0.03 as compared to a gold par value of $0.2383. By 1922, however, conditions had improved somewhat and exchange uncertainties were removed because it became customary to purchase toys in terms of American dollars instead of in German marks. In the spring of 1922 the company sent a buyer to purchase goods for stock and again in the spring of 1923 when the buyer's purchases amounted to a total cost, in Germany, of $40,000. Deliveries were made during the summer and fall.

Usually 100% was added to costs in Germany to determine landed costs in the United States, as follows:

Duty	70%
Packing cases, plus duty on cases	10
Freight, including forwarding, and custom brokers' fees	20
Total	100%

Imported goods carried in stock were sold at an average mark-up of 33⅓% above landed costs. The cost of sending a member of the company to Germany for a six weeks' purchasing trip was estimated to be about $500 for transportation and from $350 to

$500 for expenses. Total sales in 1923 were about $200,000, 50% of which consisted of domestic merchandise. An attempt was made to approximate a 33⅓% average mark-up.

Since 1921 the company had employed a German forwarding agency which had a branch in New York to collect and ship German purchases and to pay for them. Instructions ordinarily were given to manufacturers to notify the forwarding agent when goods were ready for delivery. Terms were usually cash, f.o.b. factory, for payment in American dollars. The company was notified by the forwarding agent several days in advance of the delivery in Germany, and money was deposited to the credit of the agent in the agent's New York bank. The agent then collected the goods, paid the bills from his own account, and attended to shipments to German ports and ocean transportation to America. The forwarding agent did not charge a commission but included his profit in charges for inland freight and cartage. All incidental charges, such as those for postage, cables, and consular service, were added to the forwarder's bill and sent to the Rochmont Import Company with invoices of shipment. In the United States, the company turned invoices over to an American customs broker who attended to all details of valuation and to entering the goods through the United States customs. The customs broker charged $4 for the first invoice and $1.50 for each extra invoice in the shipment on any one boat.

Before 1914, members of the company had supported the custom of importing on orders for fall deliveries. The company had been able to make such sales on a 10% or 15% margin above cost, instead of the 33⅓% mark-up when sales were made from stock. It then was necessary to carry only enough stock to meet small orders for immediate delivery. The risks of change in business conditions and seasonal demands were borne by retailers rather than by the importer. The company had been able to secure large turnover with small capital investment, because it could take orders without paying for the goods until delivery in Germany, when in turn, it collected payment from its customers.

The president of the company, however, did not believe that the same advantages would apply in 1924 as had applied before 1914. Although the probable adoption of the report of the Allied Reparation Commission promised an improvement in the financial and industrial conditions of Germany, the company still was unable to rely upon the promises of German manufacturers in

respect either to time of delivery or to the conformity of goods with samples. On import orders the company was responsible to the retailer. In 1924 it was difficult for any foreign company to secure legal satisfaction in Germany.

Although the company purchased in American dollars and prices in Germany had become fairly stable, it was difficult to quote prices in advance on import orders at the pre-war 10% or 15% mark-up on costs since landed costs now were difficult to estimate. The freight, cartage, and customs costs, as charged by the German forwarding agent, varied from time to time, and the company had no means of determining the fairness of such charges. Ocean freight rates often were based on bulk rather than weight and the company had no control over the manner of packing by German manufacturers. It was customary, furthermore, for German manufacturers to charge on the invoice the cost of the cases in which goods were packed. Charges for cases often averaged as high as 10% of the invoice. The company believed such charges were unreasonable but it had not been able to secure satisfactory explanation through letters of protest. Since the American import duty of 70% was charged on the cases as well as on the encased toys, the valuation of cases sometimes involved a total charge for that item of from 17% to 20% on the original cost of the toys in Germany.

The tariff act of 1922 had been in effect only a year and one-quarter and there still was uncertainty as to the classification of various articles as toys. The duty on toys had been increased from 35% to 70%. The changes of the classifications were frequent for articles which were on the border line between toys and such articles as wearing apparel and jewelry. Although the company always secured from a custom-house official an opinion on the probable classification and valuation of samples, this opinion was not binding and was changed frequently.

After 1914, when import orders became impracticable and it was customary to carry stock and sell for immediate delivery, the company had made a practice of breaking packages for customers and selling in lots of less than a whole dozen or gross. Most of the company's customers were small retailers who purchased in amounts of from $100 to $1,000. Many of these stores sent buyers to Baltimore, in October and November, who shopped

among the toy wholesalers and made purchases of $200 to $300 from each of several wholesalers. Because it broke packages and carried stock for immediate delivery, the company expected an average mark-up of 33⅓% on cost. It was thought that large wholesale companies which did not break packages sold on a margin of 25% to 30% on cost.

The company kept no detailed cost statistics. Mark-up on individual items was determined by judgment of the probable sales value, and by the competitive market price on the item. The change in American buying methods had not affected materially the total sales volume of the company. There was an increased number of small accounts which was offset by a decrease in the size of individual customers' purchases. Although all goods were sold at an average mark-up of 33⅓% on cost, total profits were not as large as when, previous to 1914, the bulk of sales were made for future delivery at a 10% to 15% mark-up on cost.

The president of the Rockmont Import Company believed that the purchasers of small quantities would be unwilling to go back to the pre-war custom of buying on import orders. If the company accepted import orders it would be competing in price quotations with large importing companies which were better organized in Germany. Some of these competitors maintained in Germany resident buyers who constantly would check up German manufacturers on the quality of goods and charges on packing cases. These companies were able to quote at a 10% to 15% margin above cost on import orders. Although the Rockmont Import Company had been able to make sales on a margin as small as that previous to 1914, when conditions were stable, this mark-up was considered insufficient to cover the risks and the increased overhead expenses in 1924.

Should the Rockmont Import Company have accepted import orders in 1924?

10. C. R. Seegar Company

ESTABLISHMENT OF PERMANENT WOOL-BUYING ORGANIZATION IN AUSTRALIA

The C. R. Seegar Company imported annually from 10,000 to 20,000 bales of wool from Australia. Each bale contained 300

pounds. The wool was sold to yarn spinners and manufacturers of wools and worsteds. Prior to 1910 purchases were made by one to three buyers sent by the company each year to London, and to Melbourne, Sydney, Adelaide, and Brisbane. The buyers sent to Australia remained there from three to eight months, depending on the quality of the wool and the market. If the foreign buying period was short, these men returned and assisted in the purchase of domestic wool. Occasionally, however, they were idle three or four months a year. Several competitors of the C. R. Seegar Company had permanent Australian buying organizations. The quantities purchased by some of these competitors were less than the requirements of the C. R. Seegar Company. The practice of the competitors who had permanent resident buyers caused the executives of the company to consider the establishment of a similar organization in Australia.

The principal sources from which wool was imported by the C. R. Seegar Company were Argentina and Australia. The proportion obtained from each depended on the price. When prices were approximately the same in both countries, imports from them were about equal. Total imports from both sources were usually between 9,000,000 and 12,000,000 pounds. The competition between buyers made it impossible to obtain the entire supply from one source. The difference in requirements of customers also made purchases necessary from both countries. Purchases in Argentina were made through brokers in Boston who had buying connections in Buenos Aires. The wool was shipped in bales of 1,000 pounds. The Australian wool was purchased either in London or in the principal markets in Australia. The buyer who was sent to London merely selected the lots to be purchased, since it was impossible to make actual purchases except through English brokers. No middlemen were necessary in Australia.

The company hesitated to incur the expense of maintaining three or four permanent resident buyers in a foreign country. Salaries, traveling expenses, and the cost of maintaining offices did not vary with the quantity of wool purchased. It was the practice of the producers to hold the wool until a later date if the price offered was not acceptable. If the expected increase in price did not occur, the wool was shipped to the London market to be sold there. The buyers, on the other hand, refrained from

purchasing if they believed that the price was too high. In a few years prices had remained so high throughout the buying season from October to May that only a small quantity of wool was imported directly from Australia; most of the supply of Australian wool was purchased in London. It was impossible to determine in advance the amount of wool which would be imported directly in any year and it was uncertain whether this quantity would be sufficient to justify the salaries and expenses of the buyers. The short buying season, which lasted only seven months, was another factor that made it seem inadvisable to maintain a permanent organization in Australia. Resident buyers, however, would be able during the remaining period to make contracts with growers and secure information on growing and climatic conditions which would affect the next season's clip. Part of this time would be needed to clear up the office routine and accounting necessary in an organization such as that proposed.

In South America purchases were made satisfactorily through brokers in Boston. The company could depend on wool being up to grade and it was relieved of the expense and trouble of making actual purchases and the cost of handling shipments. In Australia, however, there were more grades and brands to be considered and these grades varied in quality from year to year more than South American wools. It was necessary, therefore, to have a buyer see Australian wool before it was purchased.

The possibility of making purchases entirely in London was considered. This would have eliminated the extra expense of maintaining a permanent buying organization in Australia and would have dispensed with the details of purchasing and shipping, since these were supervised by London brokers. The executives of the company, however, believed this policy to be inadvisable, inasmuch as the maintenance of buyers in a primary market gave the company the opportunity to inspect and purchase the best grades as soon as they were placed on sale. Merchants buying through brokers in Boston and London did not have this opportunity. It had been the experience of the company that buyers at the primary market kept in touch with growers and obtained a better knowledge of the grades of wool, the conditions of climate, and the feed affecting the quality of the wool. Buying directly, moreover, saved the company brokers' commissions and the difference in the freight rate between Australia and Boston and the rate from Australia to Boston via London. It also eliminated the charges for extra handling in London.

The executives of the C. R. Seegar Company believed that these advantages outweighed the expenses involved and the possible inactivity of buyers. Since the company's average annual imports of Australian wool were usually between 3,000,000 and 6,000,000 pounds, they believed that a permanent buying organization could save, by purchasing at the most opportune time, more than the expenses involved in maintaining it in the market. By keeping in contact with the chief wool auctions and private sales, buyers could foresee probable trends of prices. Periods of inactivity, moreover, in the Australian wool market were few, and it had been the experience of the company that they occurred about once in 9 or 10 years. The C. R. Seegar Company, therefore, decided to establish a permanent organization of three buyers in Australia in 1910, with a central office located in Sydney.

From 1910 until 1924, it was the opinion of the C. R. Seegar Company that this policy had proved successful, although the company was forced to send a buyer to purchase some wool in London each year. All Australian wool was purchased by the British Government from the beginning of 1917 to October, 1920. The buyers of the C. R. Seegar Company were employed by the government during this period but returned to the company in 1920. The buying organization underwent no change on account of the war.

The quantity obtained in London in 1923 amounted to almost 100% of total purchases of Australian wool since prices in Australia were too high to make purchases advisable there. The executives of the company, however, believed that better quality and lower prices were obtained than by the previous method of buying. Even in 1923, they did not consider removing the buying organization from Australia, since experience demonstrated that the maintenance of resident buyers in that market facilitated competition with the other companies who made their purchases through their permanent organizations. With the growth of the wool market in Perth, subsequent to 1920, sales of wool from Western Australia were made in that city instead of in Adelaide and Melbourne. The buying organization of the C. R. Seegar Company extended its operations to include the wool market in Perth.

X

DIRECT IMPORTING

A. BY MANUFACTURERS

1. The Firth-Cameron Leather Company

BUYING METHODS IN ARGENTINA

The Firth-Cameron Leather Company was considering the advisability of establishing its own hide buyer in Argentina rather than continuing to buy through American brokers as had been its custom.

Argentine hides can be roughly classified under the following types: (1) Frigorifico—packers' hides; (2) Matadero—butchers' hides; (3) Campos—hides taken off on the estancias and salted; (4) Dry hides—hides dried in the sun on the ranches; (5) Nonato —calfskins.

The Firth-Cameron Leather Company usually bought only Frigorificos, or packers' hides, which as a rule are taken off the animal in the large packing establishments in or near Buenos Aires. The Argentine packers' hides are said to be of a higher quality than American packers' hides because the process of preparing hides in Buenos Aires is more thorough and much more carefully and scientifically done than in the United States. Frigorifico hides are less mutilated by brands than are Chicago packers' hides, with the exception of a few unbranded native hides. It is said in the trade that the poorest Frigorifico is about equal to the best similar Chicago packers. Frigorificos are sold almost entirely in Buenos Aires where the large packers are situated. A buyer of Frigorifico hides only would buy solely in Buenos Aires. The quality of the hides is quite uniform.

It is the common practice of most American tanners to buy their hides through American brokers representing Argentine brokers and dealers and not to maintain American buyers in Argentina. Some few large tanners, however, maintain their own buyers. The cost of maintaining an American buyer with

suitable assistants would be, roughly, $25,000 a year. This would consist of a salary of $10,000 to $12,000 for the buyer and the remainder for expenses.

An American buyer in Buenos Aires would require two native assistants as hide receivers who would inspect the hides after the buyer had made a trade. These receivers would not have to be highly paid men, but they should be honest. Inspection of Frigorificos, however, would not need to be as particular as for other types of hides. For the butchers' and Campos hides the buyer would travel into the interior. Campos hides, taken off the animal in the field, are very likely to be cut, scored, rubbed, and of inferior "take off." Extreme care must be taken in the purchase and in the inspection after purchase of the shipment. Dry hides, particularly, require careful inspection before buying and on receipt of shipment.

One brokerage firm with which Mr. Cameron had dealt quite extensively had given up the policy of keeping a buyer in Argentina and employed an Argentine broker who bought hides for no other American firm although he bought for European companies. To this man the American broker paid 1% commission and received 1% commission from the American purchaser. Mr. Cameron thus paid his broker 2% commission plus expenses over the first cost of the hides in Argentina.

Some brokers do not rely entirely on their Argentine broker, but also buy from an Argentine dealer. Since the dealer actually owns the hides, his profit, of course, is included in his price to the American broker. Both dealer and broker are used because at times American customers will not give their orders unless they are assured of the purchase being "firm." A broker, dealing solely with an Argentine broker, could not usually offer as favorable terms as a dealer, but, if he had a connection with a dealer who owned hides, he would be able to do so. Often the Argentine broker can undersell the dealer and also as often the dealer can undersell the broker. On a rising market the dealer, who has bought the hides outright, can set his prices, but on a falling market the broker has the advantage, since he has no goods on hand and buys only on order.

American brokers told Mr. Cameron that the finding of a desirable representative was purely a matter of experiment. If the broker they chose sold a consignment of hides upon specifications

which on arrival did not come up to description, and if this was followed by further badly filled orders, the broker was dropped as unreliable, and another shipper[1] tried until a dependable one was found. In the United States, hide inspectors, for a reasonable charge to the tanners, inspected all incoming foreign shipments so that the shipper always was checked.

Since Mr. Cameron required the highest quality hides, he believed that his own buyer could make better selections than he was obtaining through a broker. His purchases amounted to about $1,250,000 a year and were made up almost entirely of Frigorifico hides of an especial quality and thickness. His brokerage charges were approximately $25,000, so that the cost to him would be the same whether he bought through brokers, or through his own buyer.

It was the general belief of the trade that an American unfamiliar with the Latin temperament was at a grave disadvantage in buying in Argentina. Mr. Cameron's buyer probably would be "labeled" within a few weeks after his arrival as a buyer who wanted special hides and the Argentine sellers accordingly would increase the prices of the hides he desired. Once committed to this policy, the Firth-Cameron Leather Company would find its Argentine buying more or less restricted. Since the resident buyer would have only a certain amount to buy, he would not go into every market as the Argentine broker would do. Although an Argentine broker with an established connection with an American brokerage firm buys only for that firm in the United States, he is a much more valuable man if he has large European connections. In fact, most American brokers assist, as far as possible, their Argentine brokers in getting European business. In this way the sellers in Argentina cannot label him. Buying in Argentina only when one needs hides means paying a market price with no chance to bargain.

Another difficulty in establishing a representative was that an American does not settle down easily into Argentine habits and customs. It takes from five to ten years to become thoroughly acquainted with the customs of the country. By that time the American usually wants to come home. Although a few Americans have remained for long periods, they are a small percentage

[1] The terms "broker" and "broker shipper" are synonymous in trade usage. Also, often an American firm refers to its broker as its "shipper."

of the men who have been sent to Argentina as resident representatives.

Methods of payment would be the same whether the Firth-Cameron Leather Company bought through brokers or through its own representatives; namely, cash which would save perhaps 3% for three months on the cost of goods; sight draft; or 90 days' sight. Only in the first case would the Firth-Cameron Leather Company's own representative be more valuable, for in that case the risk of loss would be small in cabling money. Cabling money to Argentine brokers is not always a safe plan.

There would be no saving in freight or insurance. The brokers, who were heavy shippers, probably would obtain even better shipping connections than an American representative, inasmuch as they would do a greater volume of business and know the intricacies of shipping from Buenos Aires more thoroughly than the American. "C. & f." is the usual method in quoting prices, but since the freight is paid on arrival on the weight after shrinkage, the representative buyer would have no advantage over the broker on the question of freight. The shipping companies charge freight on the unloaded weight, because hides shrink in transit, and the fair adjustment is the unloaded weight. There would be no saving in insurance inasmuch as the custom of hide brokers in the United States is to carry blanket insurance on goods afloat. Insurance handled from the American office is more easily placed and adjusted than from Argentina.

Should Mr. Cameron establish a buyer from his own company in Argentina or should he continue as heretofore to buy through the American brokers?

2. Wilbur Kid Company

DIRECT IMPORTATION OF GOATSKINS FROM INDIA AND CHINA

The Wilbur Kid Company, of Philadelphia, imported annually about 225,000 dozen goatskins, valued at approximately $1,750,000, which it tanned and dyed and sold to shoe manufacturers and leather wholesalers. About 40% of the skins came from India and 30% from China. The remaining 30% was imported from several countries, the most important of which were Argen-

tina, Brazil, Aden, Mexico, and Spain. The principal export centers for goatskins in India were Madras, Karachi, Calcutta, and Bombay. The company purchased only from Madras since goatskins from the three other cities were of an inferior quality. In China the principal markets were Shanghai and Hankow. The quality of skins from these cities was higher on the average than those from India. They were used, therefore, more frequently for "colors."

The Wilbur Kid Company had never sent buyers to foreign markets, although several competitors had done so with apparent success. All purchases were made through brokers and merchants in the United States. Merchants had their own buyers abroad or purchased by cable from foreign companies which had proved themselves reliable. Brokers generally were exclusive agents for foreign exporters. A broker received a commission which varied between ½ of 1% and 1%. Merchants' gross profits were somewhat higher since they took the risk of carrying stocks and invested their own capital. The increased profit resulted from purchasing when prices were low and holding the skins until prices arose. In general, the company preferred to buy through merchants since it was able to inspect the skins in Philadelphia before purchasing. Experience had demonstrated, however, that the native or local companies in India were reliable and that purchases could be made as satisfactorily through brokers as through merchants.

On account of the limited quantity of skins which the individual merchants or brokers in the United States could supply for immediate delivery and because of the competition among the tanners for the skins, the Wilbur Kid Company was forced to divide its purchases about equally between merchants and brokers. In spite of the fact that over 80% of the world's supply of goatskins was imported into the United States, there was no cooperation among the buyers. Chinese merchants had sensed this lack of cooperation and refrained from selling until they believed that prices would go no higher during the buying season which ordinarily lasted from October until May. The company had encountered difficulty in obtaining the skins of the quality desired. It was unable, moreover, to obtain information prior to placing orders concerning the climatic conditions which affected the quality of the skins. From 10 weeks to 4 months elapsed

between the cable acceptance of quotations and the receipt of shipments in Philadelphia. By the time the first shipments arrived, the company usually had contracted for its supply of skins for the rest of the year. The goatskins imported from China in 1922-1923 were not only dry but were from 5 to 10 pounds a dozen heavier than usual. Goatskins imported by the Wilbur Kid Company averaged from 18 to 20 pounds a dozen. The company believed that, because of the famine in southern China, revolutionary forces had stolen or destroyed so many of the herds that local merchants had been forced to ship the heavy coarse skins of full-grown goats. The company had realized the reduced value of the heavier skins and bought accordingly, but it was unable to foresee other objectionable qualities, such as dryness and coarseness. Inability to obtain information in regard to climatic and other conditions affecting goatskins also applied to India.

One of the executives of the Wilbur Kid Company suggested that buyers be sent to Shanghai and Hankow, and to Madras. They could be selected from the company's organization, since such men would be acquainted with the requirements and policies of the Wilbur Kid Company. It was not considered necessary to have men who had had long experience in India or China, since it would be possible to employ a compradore in China or a similar agent in India.[1] It was estimated that the salary and expenses for one man would be between $10,000 and $15,000 a year.

Two possibilities were open to the company. A buyer could be sent to each country primarily to inspect purchases made by brokers, and to reject all undesirable lots before shipment. The buyer also could inform the company of the climatic, economic, and political conditions which affected quality and prices of goat-

[1] The absence of large herds and concentrated abattoirs in China makes the collection of hides and skins for export extremely tedious work. The situation is aggravated by the lack of transportation facilities, especially in the hide and skin producing areas like Mongolia, Manchuria, Szechuen, and Yunnan. The skins and hides of small inland farmers and town butchers are collected by native traders who sell their collection to agents sent out by domestic tanneries or dealers in Kalgan, Kiaochang, Tientsin, Hankow, Chungking, Canton, and so forth. In these places the raw material is cleansed, sorted, and repacked ready for export. These dealers sell, or make known their particular supplies, to agents of local export commission houses or export merchants. These houses in turn notify their clients in the United States who are either hide and skin brokers, merchants, or tanning establishments.

The situation in India is not greatly dissimilar to that in China.

skins. Or a buyer could be sent to do the actual purchasing from the native dealers or merchants. If the buying were to be done by the company itself, at least two and possibly three men would be required in each country. The buyers, by selecting and purchasing all skins, could eliminate the profits of brokers and merchants in the United States and to a large extent also in the Far East. They frequently would be able to buy lots at advantageous prices which would be unobtainable if the company had to wait for brokers' quotations before placing orders.

If buyers were sent annually to China or India they would remain in those countries from four to seven months, depending on the prices and the quality of the skins offered. It might be desirable to have the buyers remain in China throughout the year in order to keep the company informed on market and other conditions affecting the trade. This was possible since the company would not be able to employ these men profitably in the short time they could be in the United States if they returned. However, on a trip home they could learn new developments in the tanning industry and the forecasts of style trends and types of leather required. On account of the heat and dampness in India from June until September it would be impossible to maintain a buying organization there during the hot season. One buyer could not make the Wilbur Kid Company's purchases in both China and India since the two countries were too far apart to be accessible during the buying seasons, which were approximately the same in both countries. The company's requirements also would necessitate more than one buyer in the Far East.

Should the Wilbur Kid Company have established its own buying organization in China and India?

3. The Edward Silk Company

ESTABLISHING BUYING OFFICES FOR RAW SILK IN THE FAR EAST

The Edward Silk Company, of New Jersey, was one of the largest manufacturers of broad silks in the United States. The company's yearly purchases of raw silk amounted to many millions of dollars. Because of the large size of the purchases and because of the growing need of securing all possible economies in the costs of manufacturing, the company considered the establishment of its own buying offices in the primary raw silk markets of the Far East.

The company had always purchased its silk from the silk importing houses and the silk merchants and brokers in New York. As the largest producers of raw silk, the Japanese had come to dominate in large measure the raw silk market of the Far East. About 70% of the raw silk from the Far East used in the United States was purchased from four Japanese companies which maintained offices in New York City. The balance was sold by smaller Japanese and other foreign companies with branches in New York and by many American merchants and brokers, most of whom had no representatives in Japan or China, but purchased from exporters in those countries. The silk market in Yokohama was highly organized, the quality of raw silk had been greatly improved, and standards and grades of raw silk had been established and fairly well maintained. Manufacturers could depend upon the quality of Japanese raw silk with a considerable degree of confidence.

In China, however, the situation in the silk trade was different. The two marketing centers in China were Shanghai and Canton. Chinese silks from the Shanghai areas were similar in nature to Japanese silks, but the methods of raising the silk worms and of reeling the silk from the cocoons were much more primitive and gave a less uniform product. The skeins of silk were unevenly reeled, and many defects due to careless reeling, grading, and packing gave an inferior quality. The Cantonese silks came from kinds of cocoons distinctly different from those produced in the Shanghai district and in Japan. The filaments were finer, more glossy, and softer. For fine crêpes de Chine and high-quality plushes and velvets, the Cantonese silks were in demand. Nevertheless, the methods of growing, reeling, and marketing silk in the Canton region were so primitive, so poorly organized, and so undependable, that silk manufacturers had great difficulty in getting in Canton the kinds and grades of silk needed, even greater difficulty than was experienced in the Shanghai market.

The Edward Silk Company was becoming each year a larger user of Chinese silks. By improved machinery and through experience in handling Chinese silks the company believed it was producing finished products equal in quality to those using

TABLE 1

MONTHLY WHOLESALE PRICES PER POUND OF JAPANESE AND CHINESE RAW SILK IN NEW YORK, 1913-1918*

Month	Japanese (Average Prices of Two Filatures)					
	1913	1914	1915	1916	1917	1918
Jan....	$3.7750	$4.4750	$3.4375	$4.8250	$5.7000	$5.7500
Feb.....	3.7750	4.2500	3.2875	3.4375	5.6000	5.8250
Mar....	3.6750	4.2375	3.4375	6.0000	5.4000	5.9250
Apr.....	3.7375	4.3375	3.4625	5.2750	5.8250	6.5750
May...	3.6750	4.3150	3.4500	5.0500	5.7000	6.5750
June...	3.9000	4.4000	3.2875	4.8700	6.0750	7.3500
July....	3.9125	4.2625	3.3375	4.9575	6.8750	7.3000
Aug....	4.3250	3.8375	3.5500	5.7375	7.0250	7.3750
Sept....	3.2075	3.4488	3.5500	5.0750	6.4000	7.2250
Oct....	4.0625	3.5250	4.0375	5.3500	5.7750	7.3250
Nov....	3.9625	3.1750	4.2800	5.8205	5.7750	7.4250
Dec....	4.0125	3.2125	4.7125	5.8250	5.7750	7.0500

Month	Chinese (Average Prices of Four Filatures)					
	1913	1914	1915	1916	1917	1918
Jan....	$3.5750	$3.9675	$3.1000	$4.4875	$5.2625	$6.1750
Feb....	4.7250	3.9675	3.1125	4.7875	5.8875	6.2500
Mar....	3.7750	3.9125	3.2125	5.2500	5.6875	6.2500
Apr....	3.5450	3.7687	3.2063	5.0975	5.7500	6.5125
May...	3.5875	3.7625	3.1187	5.0500	5.7500	6.5125
June...	3.6625	4.3813	3.0625	5.0031	5.9875	6.8000
July....	3.6125	3.7000	3.0625	5.0437	6.5250	6.8750
Aug....	3.9875	3.3850	3.0000	5.5813	6.8875	6.8750
Sept....	4.0625	3.1950	3.1475	5.3375	6.6875	7.1875
Oct....	4.0125	3.0050	3.6250	5.3875	6.0375	7.1750
Nov....	3.9250	2.8750	4.2750	5.8500	6.0375	7.1750
Dec....	3.8750	3.0125	4.3000	5.8250	6.0375	6.8375

*War Industries Board, O. B. Ryder, *Prices of Silk and Silk Products*, pp. 34-35.

Japanese silks only. While prices of Chinese raw silk followed closely those of Japanese, there was distinctly a price advantage in Chinese raw silk (see Table 1). Through careful buying, the company thought it could obtain decided advantages in costs of raw silk by still further developing the use of the Chinese product.

The Edward Silk Company noted that the average monthly prices of raw silk during a year did not vary more than $1.50 a pound, while during one or two weeks in a month prices varied as much as they did during the whole year. The raw silk merchants stated that these fluctuations were the result of the irregular demand by the large consumers of raw silk who purchased silk in quantities sufficient to affect the market. The Edward Silk Company, however, purchased silk at regular weekly or bimonthly intervals throughout the year and believed that other large consumers of raw silk followed the same policy. Slightly larger purchases were made in the spring and fall because of the necessity of preparing the manufactured silk in advance for the following season's sale. These raw silk price fluctuations made it difficult for the Edward Silk Company to establish prices on manufactured silks for four to six months in advance, which was necessary in soliciting orders.

The company believed it could obtain several advantages by establishing its own buying offices in Shanghai and Canton, while continuing to buy Japanese raw silk requirements from the Japanese importers and New York merchants. In the first place, by being located in the market, it thought it would be able, by closely following marketing conditions, to obviate much of the wide price variations in its own purchases. By buying directly from the reelers in Shanghai or Canton rather than through merchants, they would also save the merchants' profit. More important would be the ability to select qualities needed and to test all purchases at their godown before payment and shipment. This was made practical by the practice in the Shanghai silk trade of making payments to the filatures on the day following the shipment of raw silk. A filature would deliver raw silk to the godown of the company and obtain receipt for same. After the silk was tested, it was delivered to the steamship company for shipment. On the day following, payments were made to the filatures. In this way, the purchasing officers of the Edward Silk Company would have ample opportunity to test all shipments before actually taking delivery and making payments.

Since "chops" in the Chinese markets varied greatly, the company thought that by being constantly in the market it would have ample opportunity to obtain silk to meet its factory needs at the best possible prices. What was generally regarded as an inferior chop might fit exactly the factory requirements of the Edward Silk Company; and it could be purchased at a distinct price advantage. The company's purchasing officer in China, knowing exactly the requirements of his mills, would frequently be in a position to take advantage of silk offerings that otherwise

would be unavailable and that could not safely be purchased for the mill through merchants in China.

The purchase of their own silk in China would give also certain advantages in the weights of silk shipments. Raw silk readily absorbs moisture and may increase in weight during the long ocean voyage from the Chinese ports to New York. Since silk is a very valuable product, even slight variations in weight are important. Part of a silk merchant's profits have resulted from this property of silk to absorb moisture between purchase and resale.

The maintenance of buying offices in China would be expensive. High-grade men would be required and although paid high salaries such men would be difficult to find and to keep in China for periods long enough for them to become thoroughly acquainted with the markets. The buyer also would have to meet the competition of the large silk merchants who had long been established and who were thoroughly organized both in China and New York.

Because its purchases were so large and because the company was well able to finance the undertaking, buying offices and godowns with silk-testing facilities were established at Shanghai and Canton.

4. Van Houten Rubber Company

ESTABLISHING BUYERS IN THE FAR EAST

In March, 1923, one of the directors of the Van Houten Rubber Company, which had bought since 1913 most of its plantation rubber from one firm of Singapore shipping merchants, proposed that the firm should establish its own buyers in the East. This policy had been discontinued in 1913 and since that time the firm had retained at the primary markets only an inspector who examined shipments which the firm bought through its merchant connection. This merchant was established in London and Colombo, as well as in Singapore. It was pointed out that many of the large consumers of raw rubber employed their own buyers at the rubber auctions in Singapore and Colombo. Several of these manufacturers purchased as much as 60,000 tons of rubber annually, whereas the Van Houten Rubber Company consumed approximately 11,000 tons. If the large companies found it advantageous to purchase abroad, it was argued that the same advantages also would accrue to the Van Houten Rubber Company.

Those in favor of adhering to the existing policy affirmed that the largest American buyer of plantation rubber bought through a New York brokerage firm. It was their belief that one of the reasons why the large company bought through this broker was that the sellers in the auctions at Colombo and Singapore would not know for whose account the broker bought and hence would not raise prices in anticipation of the large buyer's needs. They also maintained that the Van Houten Rubber Company's consumption of plantation rubber was not sufficient to merit the expense of maintaining high-priced responsible buyers in the East. The factors which led them to establish their own buyers in 1910, namely, lack of uniformity in grading types of rubber and the necessity of being in close touch with plantation conditions, were partially eliminated in 1914 and almost wholly remedied by 1923. Since 1914, moreover, the firm had established a strong connection with a British merchant at Singapore, who kept it informed daily by cable of market conditions. Information received by cable from this merchant was infinitely more economical than cable cost had been when reports were received from its own buyers, since during the past ten years, the merchants had used code numbers to describe the different types of rubber.

The only two standard types of rubber are first "latex crepe" and "smoked ribbed sheets." Underneath these are from 40 to 60 different grades. Prior to 1914 these lower grades were not carefully described; in 1923 they were not standardized, but individual merchants had special type numbers which described different grades fairly accurately. The firm from which the Van Houten Rubber Company acquired most of its rubber could be relied upon entirely when assigning any one of its type numbers to particular lots of rubber. Daily cables were sent by this merchant firm to its representative in New York, who in turn wired these reports to the Van Houten Rubber Company and his other customers in the United States. All this was at the expense of the merchants in the East. The Van Houten Rubber Company was not even subject to cable expense on its buying orders unless it sent its cable direct to the merchants in the Far East or London, for it could send its wire to the New York rep-

resentative who would cable the order at the merchant's expense.

Cables contained full particulars of the price movement of rubber for each day and information as to who were the heavy buyers, naming the American manufacturers if such were buying on their own account as well as the brokers.[1]

It was believed by those in favor of the existing policy that even in the matter of price the firm was well protected, because the inspector whom it maintained at shipping points could check up any overcharge of high quotations if the merchants should attempt any such practice.

Another argument against a change was that establishing buy-

[1] The following is a sample of the daily quotations received by the Van Houten Rubber Company from the New York representative of its merchant's shipper:

August 18, 1922

Sterling: \$4.48⅞

GENTLEMEN:

I quote from advices from:

LONDON
This # 52
Dates 18th — Latex 6-7/8*d*
Ribbed 6-7/8*d* — Quiet

Other parties have bought at and are still buyers there at 7-3/8*d* RSS European Estates Aug./Sept. opt. shipment Cif NY.

Offer firm for immediate reply Cif NY shipment from the East:
T-30/13 mixed 25 tons Sept./Oct. opt. 7-3/8*d*, combined with
T-30/13 mixed 25 tons Sept./Oct. opt. 7-12*d*.

COLOMBO
This # 20
Dated 17th
Ribbed 7-3/4*d*.
Latex 7-3/4*d*.
Firm.

AUCTION Type 1—7-3/4*d*
" 13—7-3/4*d*
" 18—7-1/2*d*
" 36—7*d*
" 37—6-3/4*d*
" 44—6*d*
" 73—6-3/4*d*
" 80—6*d*
" 82—5*d*
" 3—7-1/2*d*
" 15—6-1/4*d*
" 20—7*d*
" 40—6-3/4*d*
" 24—7*d*

470 tons offered and sold.
General Rubber Company, Mackie, Gill & Co., Harrison & Grodfield, Ltd. are large buyers.
Few sellers. Probable sellers.

(*Footnote continued on page 223*)

ers in the East was extremely costly since few Americans wished to remain there longer than three to five years. Men necessarily had to be highly paid in order to induce them to become residents in either Singapore or Colombo. Such periodical changes were costly and the right man difficult to secure. The inspector which the firm sent from its factory was paid by the merchant shipper a salary stipulated by the Van Houten Rubber Company. The experience of nearly ten years had been so satisfactory that a change did not seem expedient. There was no reason to believe that a British merchant shipping house would discriminate against an American buyer inasmuch as the United States consumed the majority of the world's rubber.

Those in favor of establishing buyers of its own pointed out that this seemed to be a general practice of the Van Houten Rubber Company's competitors. The case of the largest rubber manufacturer buying through a broker was exceptional. Furthermore, uncertainty of demand, new restriction of output adopted by the Colonial Government, and keen competition of tire manufacturers in the United States were such serious factors that only an American representative buyer could be counted

(*Footnote continued from page 222*)

LONDON, offers reinstated.

Offer firm for immediate reply Cif NY, NY weights, arrival NY.
T-30/13 mixed 50 tons Oct./Nov. opt. 7-3/8*d*
T-17—50 tons Oct./Nov. opt. 7-3/8*d*

SINGAPORE
This # 28
Dates 18th
Ribbed 7-1/2*d*
Latex 7-5/8*d*
Easier

There are buyers of T-95 Sept./Oct. opt. 5-7/8*d*
There are buyers at T-91 Sept./Oct. opt. 7*d*
Buyers T-17A near-by shipment at 7-1/2*d*
There are buyers of T-9 Sept./Oct. opt. 6-3/8*d*
Offer firm for immediate reply Cif NY shipment from the East
T-95—25 tons Sept./Oct. opt. 5-7/8*d*
T-91—25 tons Sept./Oct. opt. 7*d*
T-18—25 tons Sept./Oct. opt. 6-7/8*d*
T-20—25 tons Sept./Oct. opt. 6-5/8*d*

Offers received from my principals are subject to cable acceptance on the day of their receipt. They are offered to you on the same condition, subject to prior sale by me.

Singapore auctions take place on Wednesday and Colombo auctions on Thursday of each week. Firm bids for same should be in my hands here for cable despatch not later than Monday for Singapore and Tuesday for Colombo.

upon to forecast the market accurately, obtain the best prices, and secure the grades of rubber desired at the time it was needed.

54 Wanzer Linoleum Company

ESTABLISHMENT OF DIRECT FOREIGN BUYING RELATIONS BY A MANUFACTURER

The Wanzer Linoleum Company, of Philadelphia, contemplated sending a representative to Scotland to purchase burlap. The company manufactured linoleum and roofing paper in its several factories in the United States. It sold its products throughout the world by means of its own salesmen to wholesale hardware, department, and furniture stores, and to large contractors. There were about eight companies manufacturing linoleum in the United States, four of which were approximately half as large as the Wanzer Linoleum Company. One-eighth of the company's total sales of $25,000,000 was in linoleum. For the manufacture of its linoleum purchases of burlap aggregated $1,000,000 each year.

Nearly all of the high-grade burlap necessary for the manufacture of linoleum was purchased from Dundee, Scotland, because it could be procured only from that source. Unsuccessful experiments had been made with burlap manufactured in Calcutta and in the United States. The Scottish methods used in the separation, selection, rolling, and weaving of jute fiber had not been imitated satisfactorily by mills outside of Dundee.

The purchasing agent of the Wanzer Linoleum Company estimated that most of the high-grade burlap imported into the United States from Scotland was used in the manufacture of linoleum. Most of this was purchased six months before it was used. Individual orders for burlap placed by the Wanzer Linoleum Company ordinarily varied in value from $25,000 to $100,000. The orders for burlap were placed with the four or five sales agents of the Dundee mills which maintained separate sales offices in New York. The agents kept only a small stock of burlap, with the result that the large manufacturers, including the Wanzer Linoleum Company, had to secure shipments directly from Dundee, although the orders were placed through the American sales agents. The Dundee mills had established these

offices primarily as sales offices, but they also were to render service to the burlap manufacturers by informing them of conditions in the linoleum industry in the United States, in order that the mills might estimate accurately their production of burlap. These sales agents inspected shipments before delivery to the purchaser, although the purchaser entered them through the customs. Burlap was purchased f.o.b. vessel, the foreign port.

In purchasing through the sales agents of the Dundee mills, the Wanzer Linoleum Company had experienced frequent delays in the receipt of shipments. When the company wished deliveries on a specific date, its order had to be transmitted through the agent to the Dundee mills because the agent had no authority to act without the approval of the Dundee office. In this way, the Wanzer Linoleum Company could not make its request so emphatic. Occasionally there was a delay of one or two months in filling orders, with the result that the Wanzer Linoleum Company had to make shipment on fast passenger liners at high freight rates in order to receive them in time. Forty days' reserve stock of burlap was carried for emergency. If its reserve stock became exhausted, the Wanzer Linoleum Company would buy from other linoleum manufacturers or from the Dundee sales agents in New York.

Because of the increasing competition among linoleum manufacturers, the Wanzer Linoleum Company did not accept the market price for burlap, but set a limit which it was willing to pay and then attempted to come to an agreement in consultation with the sales agent of the Dundee mills. Unnecessary delay was caused by this procedure, because the agent could take no action until he had received the approval of the Dundee office. It was difficult to make satisfactory arrangements, inasmuch as the Scottish manufacturers argued at length over prices.

In 1923 the Wanzer Linoleum Company purchased a competitive linoleum company which had maintained successfully direct relationship with the Dundee mills. The Wanzer Linoleum Company contemplated buying directly through its own foreign representative instead of purchasing through the agents of the Dundee mills. One or two of the other linoleum manufacturers recently had established direct buying relations with the Dundee mills.

If the Wanzer Linoleum Company had a representative who

could make arrangements personally with the Dundee mills, delays in delivery and arguments over prices might be eliminated. The company could give its representative a limit price within which he was to purchase burlap to permit him flexibility of action. This price could be set at ½ penny a pound above the price which the company expected to pay. The representative, furthermore, would receive instruction by mail regarding conditions of manufacture in the linoleum industry in the United States from the Wanzer Linoleum Company. This information would help him in making his purchases. It was expected that cabling charges would be negligible.

If the agent were located in Scotland permanently, he could study the conditions in the mills and report to the Wanzer Linoleum Company in order that a more accurate basis for the limitation of prices might be established. The company's agent, furthermore, could make arrangements for purchasing rags for use in the manufacture of roofing paper directly from Europe. The Wanzer Linoleum Company was a large enough purchaser of rags to secure a price advantage, even though it divided its purchases of rags between Europe and the United States. It also imported cork from Spain. If the Dundee representative visited the centers where cork was raised, information could be secured to permit the company to deal more intelligently with its broker; thus, the time of a purchasing agent might be fully utilized abroad. Direct dealing with the Dundee mills might enable the Wanzer Linoleum Company to place its orders more frequently for burlap in small quantities because it was expected that more prompt attention would be given to direct orders.

The Wanzer Linoleum Company estimated that the cost of maintaining the representative in Scotland, including his salary and his traveling expenses in Europe, would be $10,000 to $15,000 a year. While it was possible for this representative to inspect the quality of the product before placing an order, no inspection would be made for weight and quality of the burlap before its shipment to the United States. The company still would have to depend on the agent of the Dundee mills in the United States, who rendered this service under the supervision of one of the Wanzer Linoleum Company's employees.

The Wanzer Linoleum Company believed that the Dundee mills would protect the American agent by crediting him with a

commission on all orders placed directly. It was thought that this had been done in the case of one or two other linoleum manufacturers who maintained their own representatives in Scotland. The Wanzer Linoleum Company could also place a few small orders through the sales agents of the Dundee mills in Philadelphia merely to retain their good-will. If this were done no saving in prices would accrue to the Wanzer Linoleum Company except that which might be obtained from direct negotiations with the Dundee mills.

Should the Wanzer Linoleum Company send its own buyer to Dundee with authority to purchase supplies of burlap?

6. Lochshire Wool Company, Ltd.

ESTABLISHMENT OF A BRANCH SALES OFFICE IN THE UNITED STATES BY AN ENGLISH COMPANY

The Lochshire Wool Company, Ltd., an established noils[1] merchant located in Bradford, England, sold specialty noils in the United States through a Boston broker on commission. The company was dissatisfied, however, with the volume of sales obtained by this method, and in 1924 a study was made of the possibilities of opening a branch sales office to sell directly to American woolen mills.

Since Bradford was the center of the English woolen textile industry, the Lochshire Wool Company was well situated to purchase noils of all classifications from the combers and from worsted mills for resale to the woolen mills in England and on

[1] "The distinctive process of worsted manufacturing, which differentiates that branch of the industry from woolen manufacturing, is combing. The fibers in a single fleece vary greatly in length. Only the long fibers, however, are suitable for spinning into worsted yarn. It is by the combing process that the long fibers for worsted spinning are separated from the shorter fibers. The strand of long fibers from a combing machine is wound into a cylindrical ball as it comes from the machine. This is known as a top. Worsted tops are articles of commerce. The short fibers removed by the combing machine are known as noils. These noils are suited to the manufacture of woolen cloth and are sold regularly for that purpose.

"A wool comb is an expensive, intricate machine, and ordinarily a worsted mill is equipped only with enough combs to provide for its normal needs. There are numerous plants, however, which operate combs for combing wool on commission for wool merchants or worsted manufacturers. Several other firms, known as 'top makers,' buy wool, comb it on their own account, and sell the tops to worsted mills and the noils to noils merchants."

Copeland, Melvin T., *Problems in Marketing*, pp. 320, 321.

the Continent. Terms of purchases usually were 14 days net. The company often contracted for the entire output of a mill for a season. The company had branch sales offices in the principal woolen textile centers of the European continent. It traded in wool noils and specialty noils, such as cashmere, mohair, alpaca, and camel's hair, which were used by woolen mills.

Cashmere noils were products of combing the hair of cashmere goats raised in Tibet, China, and India, and alpaca noils came from hair of alpaca goats raised in the Andes region of South America. The noils were used by woolen mills in the manufacture of women's specialty dress goods, such as soft imitation suede and fine knit sweaters. The quantity of cashmere and alpaca hair consumed in the United States was small, but nearly the entire quantity of these noils for consumption in America was imported from England. Camel's hair came mostly from North China and Mongolia, where it was picked up in tufts by natives as it was shed by the animals. As in the case of cashmere, the greater part of the camel's hair used in the United States first went through the scouring and combing process in England.

In the case of mohair from the Angora goat, the situation was different. The United States produced about 7,000,000 pounds and imported between 5,000,000 and 10,000,000 pounds of mohair annually. This mohair was scoured, combed, and manufactured into clothing in the United States. Mohair noils, however, were imported from England in varying quantities, depending on styles, and the relative activity of the woolen and worsted mills in America. When woolen mills were active, the worsted mills often were in a period of less activity, and thus the American production of noils, as a by-product of combing for tops, became inadequate to meet the need of the woolen mills.

Because of the specialty nature of the trade in cashmere and alpaca noils, the Lochshire Wool Company desired as wide a market as possible to neutralize fluctuations in price and styles. American styles and fabrics often differed from English and continental styles. Periods of activity in the woolen or worsted industry in America often did not coincide with similar periods of activity in England. In these specialty noils there was almost no competition in America since only two English noils merchants had branches in the United States.

To develop the American market the Lochshire Wool Company could sell on commission through American brokers, sell directly by cable or correspondence to American noils merchants, or open a branch sales office to sell directly to mills. The company had sold for about five years through American brokers, but was dissatisfied with the volume of sales. Brokers did not push the sales of the goat hair noils since they specialized in wool and wool noils and considered goat hair noils as a side line. Commissions on sales of goat hair noils were from 3% to 5%. Brokers carried no stocks to meet the immediate demands of American mills. The company especially wished to be in a position to push the sales of those grades of noils which did not sell readily in England or on the continent. Since it believed that an increased demand for specialty and fancy woolen goods should result from the high standard of living in the United States, the company wished to become established in the American trade. Through the use of salesmen and direct communication with mills in the United States, the company hoped to take advantage of any increased demands and interest the mills in stimulating sales of cashmere and alpaca products.

If it sold directly to American noils merchants, the company would have no direct relations with American mills. Since noils were not a branded product, the industry of the Lochshire Wool Company would be lost in sales made to the mills by merchants. American noils merchants, furthermore, usually specialized in wool noils and waste, and they traded in goat hair noils only in favorable instances either on direct order from mills or in instances where purchases of specific lots seemed to offer substantial profit. Noils merchants, however, were acquainted with the woolen mills and their probable demands. They took the credit risk and financed the holding of stocks until purchased by mills. Merchants expected a profit of about 10% on noils. If the Lochshire Wool Company sold directly to mills, it might quote below merchants' prices to mills as an inducement to stimulate direct trade.

The Lochshire Wool Company estimated that only a small capital investment would be necessary to open a branch, since the company could use bonded warehouses and it could rent office space. It knew of an American available as office manager who was thoroughly acquainted with the woolen trade. The

probable total expenses of the branch, including office rental, salaries of the branch manager, two salesmen, and an office girl, were estimated at between $400 and $500 a week, or about $25,000 a year as a maximum. The company expected to have sales averaging over $1,000,000 a year, although it was aware that this total might vary widely because of the fluctuations in price and changes in style that would affect sales of goat hair noils.

The demand for cashmere noils in 1923 and 1924 had been heavy and these noils were selling from $3 to $4 a pound, as compared to wool noils at about 80 cents a pound. A change in style, however, might make at any time the demand for these noils almost negligible, since the demand for cashmere, alpaca, and camel's hair noils depended on the styles in women's dress goods and sports wear. The demand for mohair in the United States was fairly stable. No statistics were available on consumption in the United States of goat hair noils, nor were any separate statistics available on imports into the United States.

The company had found that sales in the United States were seasonal, with the largest sales occurring from October to January. Sales tapered off from January to April and were slack in the summer. Mills usually ordered two to three months in advance of consumers' requirements. If a branch were established, the Bradford office was to take the initiative in sending consignments. The American branch manager was to advise on conditions of the market in the United States and to send specific orders received from mills. The branch office also could sell to noils merchants in the United States when it had stock which did not move readily or when quick turnover was desired. Terms to merchants were cash in 10 days.

If it opened a branch, the company planned to carry stock in the United States. By using public warehouses for storage in bond, the company could avoid paying duty until the noils were sold and withdrawn, and all rented space could be used continuously. Noils were to be sent to the American branch on consignment. Prices were to be quoted in American dollars, duty paid, ex-warehouse. Payments were to be made to the branch and the money remitted to England by the branch manager at regular intervals. In this way the American mills were to be relieved of all exchange risk, details of importing, and merchants' profit. Stocks would be available to fill immediate orders. The financing of the carrying of stocks could be done in England, where interest rates usually were lower than in the United States. If money were needed in the United States, however, it probably could be secured from American banks up to about 65% of the value of stocks carried in public warehouses.

Noils were purchased from English mills where they usually were stored in warm, dry, mill warehouses. They often gained as much as 10% in weight during the ocean voyage and in the damp warehouses in United States ports. Since sales were made by weight at the warehouse in the United States, it was expected that the gain in weight might offset warehouse charges. No tests for moisture were provided for these products.

Many woolen mills did not use cashmere or mohair materials. A few mills made a specialty of fancy woolens. It was estimated that a branch should develop a list of 75 to 100 mills in New England and in the Philadelphia district as active customers. Two salesmen could canvass these mills by making visits once or twice a month. The average sale might be expected to be between $10,000 and $20,000. Terms demanded by mills were 1% in 10 days, 60 days net.

By having a branch sales office and stocks in America, the Lochshire Wool Company hoped to be able to take advantage of market changes and to develop the direct good-will of the mills. Although the specialty noils were not branded, the company hoped to build up a reputation as a reliable and immediately available source of specialty noils. With a branch in America the Lochshire Wool Company also might trade profitably in mohair noils produced in the United States by purchasing from mills combing mohair tops, reselling to woolen mills, or even exporting in case market conditions were reversed. American mills consumed about 15,000,000 pounds of mohair annually. Since mills that combed for tops ordinarily did not use the noils, an opportunity was offered for trade in American as well as English production. It did not intend, however, to trade in wool noils, because it then would be in competition with numerous American noils merchants who, with warehouse facilities and long established mill connections, were better equipped for American trade.

If the Lochshire Wool Company opened its own branch, it

would have to carry the credit risk in selling to woolen mills with which it was not familiar. There was also the risk involved in quoting in American dollars and in carrying funds in American banks. Changes in American styles might at any time seriously lower the demand for cashmere and alpaca noils. The presidential election in 1924 made uncertain the tariff duty that might be imposed by the next administration. The existing duty on noils was 19 cents a pound. In the Tariff Act of 1913 noils were admitted free of duty. In the emergency tariff of 1921 a duty of 45 cents a pound was placed on noils. A change in duty might not affect demand for goat hair noils because these were imported principally from England. Change in duty on other woolens, however, might affect price differentials and change consumer demand.

Should the Lochshire Wool Company have established a branch sales office in the United States in 1924, or should it have continued to sell through brokers, or should it have sold directly to merchants?

7. Maelex Lumber Company

IMPORTATION OF HARDWOOD LUMBER INSTEAD OF PURCHASE OF DOMESTIC TRACTS OF TIMBER FOR PRODUCTION IN THE UNITED STATES

The Maelex Lumber Company owned tracts of timber in Georgia and Tennessee from which it manufactured poplar, spruce, and white pine lumber. Automobile body manufacturers, who used this soft lumber for floor boards and running boards on automobile bodies, were predominant among customers of the Maelex Lumber Company. Detroit, Toledo, and Cleveland were the principal centers of this class of Maelex Lumber Company's customers.

In 1919 and for several years previous, there was a noticeable increase in the demand for closed bodies on automobiles. In the manufacture of closed bodies, either birch or maple wood was used in the expensive bodies, and elm in the cheaper ones. To supply its customers with all their lumber requirements and thus to increase its hold on them, the company decided to sell birch, maple, and elm lumber. Twelve million board feet of these woods per year probably would be sufficient to supply the Maelex Lumber Company's customers. If the Maelex Lumber Company purchased this quantity of hard lumber in the United States, it would have to purchase it from the same mills which sold to the automobile body manufacturers. The prices quoted by these mills allowed too small a margin for the Maelex Lumber Company to resell profitably to its customers. Consequently, the Maelex Lumber Company had to determine whether to purchase tracts of timber for the manufacture of this lumber in the United States or to import it already manufactured from lumber mills in eastern Canada.

In Canada, lumber was cut according to British specifications. Lumber cut according to these specifications and dried by Canadian methods was unsuitable for use in the manufacture of closed bodies for automobiles. Since, however, the demand in the British market for lumber was only 25% normal, it might not be difficult to induce the Canadian operators to manufacture their lumber according to the specifications laid down by the Maelex Lumber Company.

The difference between the cost of the manufactured lumber purchased in Canada and of lumber manufactured from timber on purchased tracts in northern New York State, where the best available tracts were, was estimated to be about $8 for 1,000 board feet. In Canada, high qualities of birch, maple, and elm lumber were produced more cheaply than in the United States. The logs were larger and, since the hearts of the logs could not be used, the average Canadian log produced more lumber than the average American log.

On the available hardwood timber tracts in the United States there was much poor lumber of which little or no use could be made, but its presence increased the cost of cutting the better timber. The method of hauling logs to the sawmill was cheaper in Canada than in the United States because more use was made of team hauling over the snow than of railway hauling. Also, the labor cost averaged $60 a month per man less in Canada than in the United States.

Transportation costs from Quebec, where the Maelex Lumber Company would purchase its hard lumber, to Detroit were about $5 per 1,000 board feet more than from northern Michigan and Wisconsin, where the Maelex Lumber Company's principal com-

petitors owned tracts of hardwood timber. Shipments from Vermont and New York states were $2 or $3 less per 1,000 board feet than shipments from eastern Canada. It was planned to season the timber at the mill yard where it was sawed whether a decision was made to import it from Canada already manufactured in the form required by automobile body manufacturers or to cut and manufacture it in the United States. Thus, only one car loading would be necessary in shipping from the source of supply to consumers.

Birch, maple, and elm lumber were classified in the tariff act under the heading of cabinet woods and, therefore, were dutiable at a rate which amounted to about $2 a 1,000 board feet.[1] If it could be proved that more than 50% of these woods which would be imported from Canada were for the manufacture of automobile bodies and not for cabinet usage, it was likely that they would be put in a lower classification. The duty had been imposed because most of the hardwood importations had been for the manufacture of high-grade furniture and fine wood-work. After hardwood had been imported, it was not possible to control the use of it, so the duty would have to be levied on all importations of it or none. Refunds on the payment of duty under protest could be made, if the Maelex Lumber Company proved that more than half of the imported hard lumber was sold to automobile body manufacturers.

If the cost of hard lumber increased to a point beyond that which manufacturers of closed automobile bodies could afford to pay, metal might be substituted for wood. Consequently, if the Maelex Lumber Company established a mill in the United States for the manufacture of hardwood, 80% of which would be used by the manufacturers of closed automobile bodies, it later might have to develop a new market.

Because of the decline in demand in the British lumber market the occasion was particularly favorable for the Maelex Lumber Company to make contracts with the Canadian operators. Since a closer personal relationship was possible between American lumbermen and Canadian mill owners than between

[1] Paragraph 169 of the Tariff Act of 1913 reads, "Cedar, commercially known as Spanish cedar, lignum-vitae, lancewood, ebony, box, granadilla, mahogany, rosewood, and satinwood; all the foregoing when sawed into boards, planks, deals, or other forms and not specially provided for in this section, and all cabinet woods not further manufactured than sawed, 10 per centum ad valorem."

the British lumbermen and Canadian mill owners, it was likely that once relations between them were established they would continue, even with a revival of the lumber market in Great Britain. This was especially true in Quebec, where the Maelex Lumber Company contemplated making most of its purchases because most of the owners were French-Canadians. It was believed by the Maelex Lumber Company that the bond of sympathy of the French-Canadian operators toward Great Britain was not so strong that they preferred to sell to Englishmen rather than to Americans.

A change in the method of cutting lumber according to the American specifications would require supervision by employees of the Maelex Lumber Company. Such supervision was estimated to increase the cost of lumber in Canada about $1 per 1,000 board feet, which would reduce the $8 saving from purchase in Canada to $7. Also, notwithstanding the personal relationship of the American lumber companies with the Canadian mills, the latter might return to manufacturing according to British specifications, because it was easier to cut and pile lumber according to them than to the American specifications.

Finally, since a different tariff classification could not be obtained before importations were manufactured into automobile bodies and the principal use of this lumber proved, it would be necessary for the Maelex Lumber Company to pay a duty which would make the total cost of Canadian hard lumber delivered to the automobile body manufacturers nearly the same as that of American hard lumber.

B. BY WHOLESALERS AND RETAILERS

8. Caskey Department Store

ORGANIZATION OF FOREIGN DEPARTMENT

Decentralization was the basis of the organization of the Caskey Department Store. Three vice-presidents directly responsible to the president and the general manager were the executive heads of the three divisions in the store: finance, merchandise, and service. In charge of finance were the controller and assistant controller, who were directly responsible to the vice-president for the actual carrying out of his policies. The

finance division was responsible for cash receipts and disbursements, buying appropriations, expense budgets, auditing and accounting, credit, and sales made through the mail-order department. The vice-president in charge of merchandise supervised the work of the publicity manager and the merchandise managers of the main store and the basement store. Division managers were in charge of the merchandising of the departments in their respective groups. Each division manager had under him from one to eight buyers, each of whom was a department head. The selling functions of the store were under the supervision of the vice-president in charge of service, who had charge of all salespeople, cashiers, telephone operators, the adjustment bureau, the marketing and receiving department, the restaurant, the personal service departments, and the purchasing of equipment and supplies.

In 1923 the Caskey Department Store imported merchandise with a retail sales value of $2,500,000. This was about 10% of the store's total volume of sales. The Caskey Department Store was one of a group of 12 stores located in various cities of the United States which had organized a foreign buying association with branches in the principal European cities for the purpose of giving assistance to buyers. There was no centralized foreign department in charge of importing merchandise. Instead, the functions of such a department were allocated among the three divisions of the store. The controller's foreign office, a section of the controller's office at headquarters devoted to work in connection with foreign merchandise only, was in charge of accounting with the foreign buying branches, the payment of foreign accounts, clearance of merchandise through the custom-house, the payment of import duties, and buyers' traveling expenses. The foreign merchandise office kept records of purchases and followed up sales, collected information for the use of buyers and the foreign buying branches, and coordinated the work of the publicity manager and the needs of the buyers. Its chief function was that of sales promotion. The foreign office section of the service division located at headquarters was responsible for the receiving and marking of imported merchandise.

Many department stores with a comparable volume of sales and percentage of imports to total purchases were operating successfully with one foreign office which was responsible for all the functions performed by the foreign parts of the three divisions in the Caskey Department Store. These offices billed imported goods to their respective stores and attempted to operate with a profit. The fact that other departments had found centralization effective induced the management of the Caskey Department Store to consider whether or not it should continue the decentralized form of organization of its foreign departments.

Centralization made it possible to obtain more speed and accuracy; necessary action could be taken without bringing together three widely varied interests. All information concerning each purchase, from the preliminary budget made up before the buyer went abroad to the final sales record, was located in one place. One man was responsible for all transactions until the merchandise was retailed and placed on sale in the store. Under the decentralized plan responsibility rested in three places. Since the head of the foreign office under the centralized system was responsible for all foreign merchandise, he had a greater interest in pushing sales than the men with less authority in the three foreign divisions of the decentralized system.

The management of the Caskey Department Store, however, did not consider foreign merchandise to be different from domestic merchandise in any respect except source of origin. It did not purchase merchandise abroad unless it obtained lower prices, or more advanced or more distinctive styles than were available in the domestic market. Under the decentralized plan the store was able to obtain the advantage of its functional form of organization. Specialists in each of the three divisions controlled the plans and policies concerning foreign, as well as domestic, merchandise. The head of a centralized foreign office, for instance, would be less capable of formulating merchandise policies than the merchandise manager. A buyer would be more interested in foreign merchandise under the decentralized organization because purchasing plans originated with him, the division managers, and the merchandise manager, rather than with the head of a department entirely unrelated to his own. Independent action by the three divisions gave a check one upon another which was impossible under a centralized organization. Under the existing division of labor each department was responsible for a different task which was done more thoroughly

than if responsibility were centered in one place. The management feared that a centralized foreign office would extend its activities and increase expenses to a point where it would cost more to operate than would the present organization.

Should the Caskey Department Store continue the present organization of its foreign department or should it install a centralized foreign office?

9. Brant Brothers

ASSOCIATION WITH AMERICAN DEPARTMENT STORES FOR FOREIGN BUYING

Brant Brothers operated a department store in St. Louis with sales of $25,000,000 annually and bought each year in foreign markets merchandise valued at about $680,000, landed cost. Up to 1922, all purchases were made with the assistance of Depuy Fils, a commissionaire organization which maintained principal offices in London, Lyons, Bruges, Florence, Vienna, Berlin, Chemnitz, Frankford, and Yokohama and had agents who were familiar with market conditions in all other parts of the world. In June, 1923, Brant Brothers was notified that the flat charge for services, which had amounted to $30,000 each year, would be increased to $40,000 for the year 1924. At the same time, Brant Brothers was requested by a group of 11 department and specialty stores to join their cooperative buying organization, the American Buyers' Association.

Prior to the arrival of the buyers sent by Brant Brothers to European markets, Depuy Fils arranged the itinerary and submitted lists of companies from which merchandise could be obtained to the greatest advantage. Depuy Fils had in each of its principal offices merchandise men and an executive in charge of financial arrangements. The former assisted buyers in making purchases by establishing contacts and arranging for interpreters, as well as by giving advice on style trends, markets, and prices. Copies of orders of all purchases were left with Depuy Fils, merchandise was shipped to its offices, orders of each of the stores served by Depuy Fils were consolidated, and bills were paid by Depuy Fils at a charge of 6% interest on daily outstanding indebtedness. Brant Brothers arranged for payment by establishing letters of credit on purchases aggregating over 100,000 francs. Reorders for merchandise were placed and shipped by Depuy Fils.

Brant Brothers purchased three types of merchandise in foreign markets. The first was staple merchandise, such as notions, kitchen ware, and laces. Reorders on this merchandise could be made without the necessity of a buyer's trip; hence, purchases were made frequently throughout the year. The second type was style merchandise, such as ready-to-wear millinery, silks, and high-priced laces. These were purchased seasonally and usually in sufficient quantities for an entire season. The third type was known as "prestige goods," on which there was a low rate of stock-turn. These were extreme styles in ready-to-wear or art merchandise which were bought for the purpose of ornamenting the display in a department.

Department stores in the United States usually made purchases through commissionaires or foreign agents similar to Depuy Fils. These commissionaires, usually for a commission which varied from 2½% to 5% of the value of purchases, accompanied buyers, assisted them in finding merchandise, acted as interpreters, and consolidated and shipped purchases to the United States. American companies buying by this method believed that commissionaires often collected commissions from sellers, as well as buyers, and that their judgment was biased in favor of foreign manufacturers offering the largest commissions.

A second method which was followed by three or four large department stores in the United States was to purchase through independent branch buying offices in European cities.

A third method was followed by about five organizations of American department stores similar to the American Buyers' Association. In the latter, 11 stores, each in a different city, grouped to maintain offices in Paris, Berlin, and London, each of which was incorporated in the respective country. Agents were secured to operate these offices on a strictly salaried basis. The agents of the American Buyers' Association were Americans. Agents of other such associations were natives of the country in which the offices were located. Their functions were to keep informed of market conditions, to advise buyers, to provide all necessary information as to price, style, quality, and source

of supply, and to perform other duties similar to those of Depuy Fils. Expenses under this method of buying were believed to have exceeded 5% of the value of merchandise bought during 1920 and 1921. Each store paid a portion of the operating expenses which was based on the total amount of its purchases.

Under all three methods, the department stores attended to the entry of merchandise into the United States either through their own organization or through custom-house brokers.

The 11 stores with which Brant Brothers considered associating were each in a different city. The most important member in the organization sold approximately $20,000,000 worth of merchandise annually to a high-class clientele. Another member had sales of about the same volume, but its clientele was from the middle class. The customers of Brant Brothers were in an intermediate group. The other nine companies operated chiefly small specialty stores, such as furs or ladies' dresses; their purchases probably would aggregate not over 20% of the foreign purchases of the organization if Brant Brothers joined. Expense to Brant Brothers might approximate 5% of the volume of purchases.

Brant Brothers had become dissatisfied with the services of Depuy Fils. Brant Brothers' store was the largest department store patronizing the organization, but it was not receiving preferential treatment commensurate with its volume of orders. Depuy Fils, in the opinion of Brant Brothers, was building up a reputation in European markets for Depuy Fils, so that, in time, the name Brant Brothers might not be as well known to European manufacturers as was desirable. On several occasions Depuy Fils had exploited the ability of Brant Brothers' buyers by recommending the purchase to other clients of peculiar and unique styles which the buyers had originated or discovered and desired as exclusive merchandise for their own store. This did not affect Brant Brothers directly, since no other stores in the vicinity were purchasing through Depuy Fils, but it made possible the purchase of the exclusive items through other commissionaires or through New York importers. Although Brant Brothers had been purchasing for many years through Depuy Fils, the latter was not showing the personal interest that formerly had been given. Buyers of Brant Brothers had become acquainted with foreign merchants and did not need to depend

upon Depuy Fils. The $40,000 salary for Depuy Fils had to be paid whether importations increased or decreased. Future volume of purchases was difficult to predict, but Brant Brothers believed that it might increase because merchandise could be imported in 1923 to sell at less than similar materials manufactured in the United States.

If Brant Brothers associated with the 11 stores on the basis of percentage of burden, it would have the largest percentage of overhead expense because its volume of purchases was largest. The American Buyers' Association did not have offices in the Far East or in Turkey. Brant Brothers, therefore, could continue to buy through Depuy Fils on a commission basis or through other local commissionaires. In the former event, Depuy Fils might not give such satisfactory service as in 1922, because Brant Brothers was not using its entire service. If Brant Brothers bought through local commissionaires, a new method of purchase had to be developed.

The contract with the American Buyers' Association was for three years and, without definite knowledge of the efficiency of operation for its needs, Brant Brothers hesitated to contract for so long a period. In the new organization, the majority of members imported a type of merchandise more expensive than that required for the character of Brant Brothers' sales. It was a question, therefore, whether the experience of the buyers of this association in purchasing a high quality of merchandise would be of assistance to Brant Brothers in purchasing a medium quality of merchandise. A new member in such an organization, moreover, might meet opposition from older members. If two member stores desired the same merchandise on reorders, the older members might be given preference. Purchase through Depuy Fils had been made independently and information on volume and type of merchandise bought did not come to the ears of competitors in the United States. Purchases made through the American Buyers' Association, however, might become common knowledge among members of the organization and in some way come to the notice of competing stores. Brant Brothers, if it became a member, would have voting power in operation and by reason of volume might acquire a preponderance of influence. Americans in the foreign offices, moreover, although they did not possess certain advantages of natives in trading with natives,

had an understanding of American conditions. This seemed more likely to meet the requirements of Brant Brothers.

Brant Brothers believed that an organization in which it had control was essential to its interests and consequently decided not to accede to Depuy Fils's demand for a higher salary, but to join the American Buyers' Association. Purchases in the Orient were to be made by traveling buyers through commissionaires in Eastern buying centers.

10. Viscount Company

ADVISABILITY OF PURCHASING WOMEN'S DRESS GOODS DIRECTLY FROM EUROPEAN MARKETS

The Viscount Company, of Cincinnati, operated a department store which sold to customers who demanded merchandise of fine quality. Sales aggregated $20,000,000 annually. The buyer of women's dress goods made his last trip to European markets in 1914. In July, 1923, it was suggested that he discontinue the purchase of materials from New York importers and branches of foreign manufacturing companies and buy directly in European markets. Trade reports and information from buyers who had been in Europe indicated that mills in Scotland, England, and Belgium still were disorganized but that French industries were improving rapidly.

Imported dress goods bought in 1922 totaled $40,000 landed cost; all these were style materials, classed as "staple," "higher," or "prestige." The last group of imports, produced on Jacquard looms in France, was employed principally for advertising purposes. In 1923 the only imported materials which were directly competitive with those produced in the United States were English ginghams and voiles of the cheaper grade. Dotted Swiss muslins from Switzerland approximated 10% of imported dress goods; crepes, voiles, and ratines with block printing from France, 50% to 60%; colored dress linens from Belgium, 15% to 20%; Scotch ginghams and English ginghams and voiles, 15% to 20%. Sales in 1923 were equal in value to 1922.

Department stores in Cincinnati competed in the purchase of style merchandise from New York importers. These firms sold stocks of new styles rapidly; reorders were not promptly filled.

On orders placed with importers in New York, the company's buyer stated that if delivery was not made before a specified date the order was to be canceled. He did not hesitate to cancel orders with domestic manufacturers.

Importers' gross margin was as high as 50% of landed costs. Through a buying organization of American department stores of which the Viscount Company was a member, the buyer learned that direct purchases of several kinds of material could be made at prices from 20% to 40% less, landed, than those quoted by importers. This landed figure cost, however, did not take into consideration the buyer's traveling expenses which would amount to at least $2,000. Importing firms had their own warehouses and attended to matters connected with tariff. They attended to difficulties of exchange and either made a profit or absorbed a loss on variations. The buyer believed, nevertheless, that the value of actual services was not over one-half the gross margin made by importers.

Under a policy of direct purchase there would be many additional details to be performed by the store's organization in connection with ordering, shipping, checking quality, paying bills, entering merchandise, paying duties, warehousing, and so on. Stock-room charges would be increased if the Viscount Company bought directly from Europe. A saving of the importers' merchandising profits resulted but the probability of profit or loss on exchange existed. A European trip by the buyer was necessary in July in order to insure prompt delivery for the opening of the dress-goods season, about December 1; approximately two months of the buyer's time was required. European manufacturers were slow to make deliveries according to contract, but the difficulties of returning goods made it inadvisable to refuse shipments at the port of entry.

The direct savings which would result from buying in European markets could not be determined definitely. During a stay of more than a month in Europe the buyer would have the first choice of new styles. In instances of patterns which had been monopolized by New York importers, he knew that manufacturers, particularly the French, were accustomed to add a small figure to the design or make slight changes in the weave in order to secure orders from other customers. In this manner the Viscount Company not only could retain the effect of its competitors'

exclusive pattern but also could secure the advertising advantage of introducing exclusive novel patterns. After an initial order had been placed, the buyer could submit samples, upon his return, to domestic manufacturers for imitation at lower prices. On staple and low-prestige materials he could thus undersell his competitors who were buying through importers and also carry a continuous stock, whereas his competitors were selling on a one-order basis. On a buying trip, the buyer did not contemplate more than the placing of initial orders for the opening of the dress-goods season; he planned to reorder through the company's European buying organization. While domestic manufacturers, during and after the war period, had successfully imitated several of the finer qualities of foreign material, the buyer believed that the French "prestige" crepes, voiles, and ratines, with their fine handwork, could not be duplicated by domestic manufacturers.

Although the cost of a trip to European markets might be more than the direct saving on the limited volume of imported dress goods, the buyer decided that indirect saving such as that which might result from domestic imitations and style prestige warranted his buying directly from European markets.

11. Belman Department Store

PURCHASE OF FAR-EASTERN GOODS THROUGH NEW YORK IMPORTERS

Prior to 1921 the Belman Department Store, located in an eastern city, purchased its supplies of Japanese and Chinese merchandise from New York importers. In that year, the manager of the foreign department adopted the policy of placing orders with commission buyers in the oriental markets. The store paid a 5% commission to those buyers and effected a saving of 10% of the prices charged by importers. The commission buyers, however, failed to furnish materials of satisfactory quality and to secure prompt deliveries.

In February, 1923, a representative of Linwood Brothers, another commission buying firm, interviewed the foreign-department manager and suggested that the store purchase through that firm, as 15 department and specialty stores in other cities of the United States already were doing. The foreign-department manager believed it possible to secure even lower prices in this way than had been obtained by independent purchases through commission buyers. He instructed Linwood Brothers, therefore, to buy $40,000 worth of Japanese and Chinese merchandise, according to samples shown by the representative. He also authorized the firm to purchase on its own judgment $5,000 worth of novelty materials, which were to be produced subsequently but for which samples were not ready.

These materials were intended for display in the store during the Christmas season of 1923, but were not received until January, 1924. Since a member of Linwood Brothers was to call with new samples in February, it was necessary to decide whether or not purchase through that firm should be continued.

Linwood Brothers had offices and godowns in Shanghai and Tokio; it purchased many materials directly from manufacturers and native dealers. Its own buyers also were sent to household producing centers for jewelry, carved bone, ivory beads, and similar goods, which were made for the most part in the workers' homes or in small shops. Shipments were assembled by Linwood Brothers; the merchandise ordered by each of its 15 clients was consolidated, inspected, and shipped on a c.i.f. basis to the ports nearest the individual stores.

The Belman Department Store arranged for letters of credit at a bank in Tokio and at one in Shanghai. Upon shipment of the merchandise, Linwood Brothers was to present shipping papers and necessary consular invoices at the bank and secure payment. The Belman Department Store was to reorder by mail. The retail firm was to attend to custom-house brokerage at the port of entry and to delivery of merchandise to its own store.

Japanese merchandise included bamboo and wicker baskets; knockdown chairs; silks and crepes, both in piece goods or made up; and toys. Fragile enameled furniture came from China. Brass ware, sold in the kitchen goods department; miscellaneous jewelry, such as ivories and carved bone beads; wooden novelties, such as flower stands and bric-a-brac; novelty wares, such as Sumari jars; and chinaware, were secured both in China and in Japan. During and after the World War, American stores had turned to Far-Eastern markets in an attempt to secure substitutes for many articles formerly purchased from Germany. Japanese toys made according to sample in imitation of German toys,

however, had shown peculiar characteristics, such as slanted eyes on dolls, which did not appeal to American customers. During the period when it had purchased Japanese and Chinese products from commission merchants, the Belman Department Store had observed that factory-made imports from the Far East frequently did not conform to American specifications. In many instances the store had received, through commission buyers, merchandise which did not conform to samples submitted. Such materials as silk goods and infants' garments, however, proved satisfactory.

The packing of native oriental firms was inadequate. For example, in January, 1924, the Belman Department Store received a shipment of Mah Jongg sets and found that 75% of the boxes had been broken in transit. Flimsy construction was reported later by customers. The cost resulting from breakage had not been determined, but it was a cause of inconvenience and also affected the reputation of the store with customers. The foreign-department manager believed that these difficulties would continue. Insurance against all breakage losses could be secured at a cost of approximately 2%, but if breakage occurred, the store had to wait for repairs to be made by local manufacturers or had to purchase from New York importers in order to have merchandise on sale when customers demanded it. Importers were said to have the same difficulties with breakage, but their prices covered the risk involved. An additional cost of purchase through Linwood Brothers was the loss of interest on investment in imports during the six weeks or two months between the date on which Linwood Brothers secured payment from the bank and that on which merchandise was delivered to the Belman Department Store. The manager realized that part of the delay in delivery of the $5,000 worth of materials ordered for the Christmas season of 1923 had been caused by earthquake conditions.

The Belman Department Store could purchase merchandise from importers in the exact quantities desired. This was a marked advantage, since when orders were placed with a commission buyer, it frequently was necessary to buy complete sets of articles such as crockery bowls. Importers, furthermore, were able to assure the store of uniform quality and prompt delivery of the materials that they carried in stock. Since the store could purchase frequently and in small lots, it could reduce its inventory to a low point.

On the other hand, the store would have to maintain contacts with several importers, because no one of them stocked all the articles required. It might be impossible, also, always to obtain a continuous supply. Japanese and Chinese products, however, were not subject to style change and the demand was such that customers were not lost if a continuous supply was not on sale.

Aside from the higher prices charged, importers seemed to offer a more satisfactory service than did the commission buyers. The store decided that assured quality was more important than the increased cost, and, therefore, resumed buying from New York importers.

12. Linnard Stores, Inc.

CHOICE OF BUYING METHODS IN EUROPE

The chain stores operated by Linnard Stores, Inc., in the central and eastern parts of the United States had a dollar limit on prices. The stores sold a wide variety of merchandise which included such articles as toys, stationery, hardware, kitchenware, crockery, jewelry, candy, toilet articles, a small assortment of dry-goods, books, and music. There were 20 merchandise divisions. Sixteen buyers, with headquarters in the central office at Philadelphia, controlled the purchase of all merchandise. Each buyer purchased related lines regardless of the merchandise classification, but the merchandise which he was to buy was defined sharply so that overlapping purchases were infrequent. When a buyer had left Philadelphia to buy certain lines, his other lines were given to the buyers who regularly purchased similar merchandise. All buyers were responsible to a head buyer.

Linnard Stores, Inc., sold both domestic and imported merchandise, but bought in the United States whenever possible. It purchased abroad only when the merchandise either could not be secured in the United States or could be secured at a landed cost less than the price of like domestic merchandise. The landed cost included the purchase price, actual cost of shipment, duties, commissions for forwarding service, and traveling expenses if a buyer was sent abroad.

The method used in the purchase of foreign merchandise was decided at a conference of the resident buyer for that merchandise, the head buyer, and the import manager. The Linnard Stores, Inc., usually had a choice of three methods. It might send abroad the resident buyer, entrust the purchase to a buyer of similar merchandise who was going abroad to purchase his own lines, or delegate the purchase to one of its foreign buying offices.

Linnard Stores, Inc., owned five European buying offices located at Manchester, Lyons, Havre, Prague, and Vienna. Americans were in charge of those offices. The offices at Manchester and Lyons each had three buyers; the others each had one. The duties of the buyers were to purchase on specification all orders submitted by the central office, to have a thorough knowledge of the near-by markets, to report market conditions, to submit samples of what they believed was desirable merchandise to the central office for inspection, and to follow up orders placed either by them or by the home office directly until delivery to a forwarding agent at the port of shipment.

The central office at Philadelphia paid each buying office a commission in accordance with the usual charge for such services in the city in which the buying office was located. The commission usually was sufficient to pay the fixed salary of the buyer, his traveling expenses, and all other expenses of the office. If a buying office showed a profit, that was kept by the office as a reserve against possible future losses. If a loss was shown, the deficit was paid from the reserve, or, if that was not sufficient, the Philadelphia office forwarded the amount needed and charged it on its books as a current expense.

Linnard Stores, Inc., featured 25-cent toys. In 1924 it desired to import from Czechoslovakia building blocks and paper dolls to be sold at that price. Because manufacturers would not make the toys before receipt of orders, it was necessary for the Linnard Stores, Inc., to place orders in November and December for delivery the following June or July. The season for selling toys was between Hallowe'en and New Year's day. The company was undecided in September, 1924, whether to purchase through the Prague buying office or to send the resident buyer from Philadelphia. No other company buyer who could purchase satisfactorily building blocks and paper dolls was going from Philadelphia to Czechoslovakia.

Prior to 1917, Linnard Stores, Inc., regularly had imported building blocks and paper dolls from the territory later known as Czechoslovakia. The company had sold those blocks and dolls for 25 cents and secured a satisfactory gross margin. Because of the World War and unsettled foreign-exchange conditions between 1917 and 1923, domestic merchandise of a lower quality than that which could be obtained abroad had been substituted. The head buyer desired to import toys again as soon as conditions for importing were stabilized enough to be reasonably satisfactory.

In 1923 the company had found that it could import building blocks and dolls at a landed cost that would make possible the 50% gross margin required of the toy department. Since the Czechoslovakian exchange was so unsettled, exchange transactions could not be hedged. The current terms were 90 days' sight draft drawn against a letter of credit at the prices quoted when the order was placed, or, if the exchange rate moved against Czechoslovakia, at the prices at the time the merchandise was shipped. Because exchange rates were becoming more stable, the Linnard Stores, Inc., had decided to take the exchange risk to secure the merchandise, and placed an order for $75,000 worth of toy building blocks and paper dolls.

The company had decided, in 1923, that the size of the order did not warrant sending the resident buyer of building blocks and paper dolls to Czechoslovakia. The order, therefore, was placed through the buyer in the Prague office who had been in charge of the office before 1917 and was familiar with the merchandise purchased prior to that year. Although he secured merchandise in 1923 that fulfilled the specifications, the head buyer, the resident buyer, and the import manager were all of the opinion that better merchandise could have been secured for the same price. The company did not anticipate any difficulty in disposing of the toys at the regular price. It desired, however, for the next purchase to get the better values, which its knowledge of the market led it to believe were obtainable.

In September, 1924, because the exchange rate on Czechoslovakia was fairly stable, the company did not doubt that it should import the toys which it desired. But there was doubt as to the choice of the purchasing method. The resident buyer at Philadelphia had been abroad on buying trips and was accus-

tomed to foreign business methods. Besides buying wooden blocks and paper dolls, he also purchased stationery and paper and fiber dishes. The latter lines he had bought only in the domestic market, and it was not anticipated that he could find suitable merchandise in those lines in Czechoslovakia. To send him would involve a six-week trip and would cost, for traveling expenses, about $2,000. Since he had no assistant buyer, in his absence other buyers would have to purchase his lines of stationery and paper dishes. Substitute buyers were not thoroughly familiar with those lines and might neglect their own. The Linnard Stores, Inc., believed that the time, expense, and inconvenience involved in sending the buyer to Czechoslovakia could not be justified fully from the standpoint of cost, unless the order amounted to $150,000. Estimated amounts required in September, 1924, were $82,500.

If the Prague office were used, the additional cost of placing the order over regular expenses of that office would be for traveling expenses which probably would not exceed $300. That would be paid from the commission received by the office. The buyer in the Prague office had to follow up all orders until shipment, whether placed by him or by a buyer from the United States. The commission for buying and following up the order would not amount to as much as the sum of the expenses of sending a buyer to Czechoslovakia and the commission to the buying office for following up the orders placed.

The company's experience had been that the resident buyer had better judgment of comparative merchandise values than had the one at Prague. He also had a knowledge of the merchandise offered in the American market which the Prague buyer lacked. Because of that knowledge, the buyer from the central office could seek values which compared more favorably with those obtainable in America. The Philadelphia buyer had the same knowledge of previous sources as the buyer at Prague. In the search for the best values, he might uncover new sources that the regular buyer at Prague might overlook. The buyer from the central office also might find desirable merchandise in his other lines, although that was not considered probable.

The company was undecided before the sale of the merchandise secured in 1923 whether to use the Prague buying office or to send the resident buyer from Philadelphia. Linnard Stores, Inc., could not base its decision on the success with which the merchandise sold, but only on its comparison of the toys which had arrived with what it believed the market offered. The company could afford to sacrifice part of its profits to send the resident buyer from Philadelphia to Czechoslovakia, if it deemed such action necessary. While the company believed that an order of $150,000 was necessary to justify fully the sending of the resident buyer to Czechoslovakia, it was willing to send him for a smaller purchase, if that was considered advisable in order to get more satisfactory values.

Should Linnard Stores, Inc., have sent its regular buyer of wooden blocks and paper dolls to Czechoslovakia in 1924 or should it have employed its Prague buying office?

13. Carthage Company

USE OF THE LEIPZIG FAIR BY BUYERS OF SPECIALTY MERCHANDISE

The Carthage Company was a specialty store selling at retail women's garments, silks, leather goods, jewelry, glassware, and crockery. The sales of glassware and crockery in 1923 amounted to approximately $100,000. Thirty-five per cent of these products were of domestic origin. The remainder came chiefly from England and France. The manager of the merchandise department was undecided as to whether the buyer of the crockery and glassware department, who was sent to Europe annually, should attend the Leipzig fair in the spring of 1924.

Annual fairs had been held in Europe for hundreds of years. In addition to the large industrial exhibitions, such as were held in London and Paris during 1924, small local fairs were arranged in many of the smaller cities under the auspices of the chambers of commerce. These small fairs were of interest chiefly to the local population and displayed, for the main part, merchandise of local manufacturers only. There were also large annual fairs such as those at Nizhnii-Novgorod, Leipzig, Lyons, and Vienna, which had become known throughout the world. Some of these fairs were discontinued during the World War, but had been reestablished after 1919. Some new fairs had also been established.

The fair at Vienna was the smallest of the three large fairs which were held each year. The merchandise displayed there was made ordinarily by the small manufacturers and shop keepers. It consisted of lace work, beads, leather goods, and articles in which the handwork was important. The fair at Lyons, France, was noted chiefly for its silks, ribbons, gloves, and glassware. The fair at Leipzig was held both in the spring and in the fall. It was the largest of the three fairs, and merchandise from almost all European countries was displayed, although the products from Germany and Czechoslovakia were most important. The spring fair was noted especially for its exhibits of china, glassware, and pottery, while the fall fair specialized in displays of furs and household articles such as cooking utensils and cheap furniture. The merchandise displayed at both of these fairs was ordinarily of two widely different types; namely, that which was manufactured for South American and African consumption, and that which was manufactured for American, English, and Continental markets.

Until 1914 the Carthage Company had sold annually from $15,000 to $20,000 worth of German and Bohemian glassware and pottery purchased directly from the manufacturers or from factory agents in New York. In 1921 the sales of glassware and pottery from Germany and Bohemia amounted to only about $2,000. In that year, the first Leipzig fair following the World War was held. The company sent its buyer to this fair. The manager of the merchandise department believed that, with the reestablishment of German manufacturers, German products again would become popular in the United States. The manager was convinced, furthermore, that the buyer would be able to determine the new products and designs which were being manufactured and would be able to choose articles which were most likely to find a ready sale in the United States. The company was disappointed with the results of the buyer's trip to the Leipzig fair. The manufacturers who had displayed their products had not appeared eager to negotiate with American purchasers. The crowds at the fair, moreover, had made it difficult for the buyer to find those articles in which he was interested. Such a quantity of products of all types had been exhibited that it had been necessary to look at many displays before the articles in which

the Carthage Company was interested could be found. Practically no products of new design had been secured.

Although the purchases had been made from 12 different manufacturers, a few of whom were among the most reputable German manufacturers and some of them manufacturers from whom the company had purchased previous to 1914, the company was dissatisfied with the way in which orders had been filled. Deliveries were not made upon schedule; merchandise which had been purchased for delivery in three months did not arrive for six months. The merchandise which had been shipped had not been of the quality which the buyer had ordered. The manufacturers had been unwilling to make any reasonable settlement of the claims instituted by the company. The buyer believed that, although the fair had been equal in attendance to any held previous to 1914 and even superior in some of the displays, unsatisfactory results had been caused by the low morale of the German manufacturers, the result of the disrupted economic and monetary conditions.

The company was so dissatisfied that in 1922 and 1923 the buyer of glassware and pottery did not attend the Leipzig fair although he made his annual trip to Europe in both years. During those years the Carthage Company purchased all its German, Bohemian, and Czechoslovakian glassware and pottery through manufacturers' agents located in New York City. Such merchandise was purchased from the stocks which these agents maintained in the United States, which were as complete as those displayed by the manufacturer at the fair. The company found it difficult to obtain from the New York agents merchandise which was different from that of competitors. This disadvantage occasionally was overcome by ordering for future delivery a special design placed on glassware of a slightly different shape or color than that which the agent carried in stock. The total sales of this class of merchandise had remained at about $2,000 annually during 1922 and 1923.

The total expenses of the buyer's trip, which ordinarily required from six weeks to two months, amounted to about $20 a day. Under the itinerary which the company planned for the 1924 trip, the buyer was scheduled to return to the United States slightly before the opening of the Leipzig fair. The merchandise manager estimated that if the buyer visited the Leipzig fair, it

would be necessary for him to remain in Europe from two to three weeks longer. This meant an added expense of from $300 to $400. The company saw no reason why the results should be any different from those of the 1921 fair. The buyer of glassware and crockery for the Carthage Company had not attended the fair at Lyons since its reestablishment in 1919.

It was possible that sufficient advantages might be derived to make the buyer's presence at the Leipzig fair advisable. The Carthage Company preferred at all times to purchase distinctive merchandise which differed from that of its competitors. New designs might be found at the Leipzig fair and the buyer might become acquainted with new manufacturers and manufacturers whose products had not been sold in the United States. The company had found, furthermore, that it was advantageous, when purchasing from manufacturers' agents located in the United States, to send buyers to the countries of production whether these buyers made large purchases or not. This trip enabled the buyer to become acquainted thoroughly with the changes in design and in pattern as well as with the prospective changes in prices and in buying conditions. This knowledge enabled the buyer to purchase more advantageously from the manufacturer's agent who, knowing that the buyer had visited the manufacturers in the country of production, was inclined to give him better service than he otherwise would have received.

The manager of the merchandise department was not certain, however, that articles of German manufacture would come again into popularity in the United States. It had appeared that prejudice against German products as a result of the World War still existed. The merchandise manager of the Carthage Company was of the opinion that the European fairs did not yield sufficiently satisfactory results to recompense the company for sending buyers to them. It was his opinion that since the company desired only merchandise of a high quality which was different from competitors', these products could be purchased most satisfactorily by sending the buyer directly to the small manufacturers and producers.

The merchandise manager decided that the buyer should not attend the Leipzig fair, a decision with which the buyer himself agreed.

14. Brinmer Wholesale Grocery Company

PURCHASE OF GREEN COFFEE DIRECT FROM PLANTERS

Prior to 1922 the buyer of imported merchandise for the Brinmer Wholesale Grocery Company, in Philadelphia, had purchased green coffee from brokers in Philadelphia and New York or from import merchants in New York. In 1922 the owner of a large plantation in São Paulo called upon the buyer and suggested that the company purchase directly from him.

The customers of the Brinmer Wholesale Grocery Company had been retained for years. Five blends of coffee were sold under the company's own brand. These blends, which had been maintained for 55 years, included coffee from South America, Central America, Mexico, and the Far East. Fifteen thousand bags of green coffee, 132 pounds each, were purchased yearly. Coffee of the grade raised by the planter who suggested direct importation approximated 10% of the total quantity used by the Brinmer Wholesale Grocery Company in its blends. Coffee purchased was roasted in ovens operated by the Brinmer Wholesale Grocery Company in its own warehouse.

The body, acidity, and flavor of coffee were not subject to chemical tests; they could be determined only by an expert from a cup test of roasted beans.[1] Blends were maintained only by rigid adherence to specified proportions and to the quality of beans used. South American coffees differed between localities and countries; the farther north they were grown, the heavier was the quality. Mexican coffee had a rank, heavy flavor.

Coffee grown in Brazil was sacked by planters and sold to "commissarios" at Santos or Rio de Janeiro, who made rigid tests of each bag of the green beans in order to insure conformity of the lot to samples submitted. "Commissarios" then sold on the basis of sample to export merchants who also made rigid tests. Export merchants sold to import merchants in the United States, or shipped green coffee to New York on their own account, where it was stored in public warehouses until sale could be effected through brokers. Two or three Brazilian exporters had branch offices and warehouses in New York. American importers bought

[1] At a cup test, roasted beans were ground and brewed, as in the home; the brew then was tasted, either plain, or flavored with cream and sugar. A coffee was considered rank, soft, acid, or otherwise, according to taste as compared with other coffee brews.

either on their own account from Brazilian exporters or had offices in Brazil through which purchases were made from commission merchants and, occasionally, from planters.

The coffee buyer of the Brinmer Wholesale Grocery Company received calls from representatives of New York import merchants and brokerage firms. These salesmen had raw and roasted samples of lots of green coffee, actually in warehouses in New York. The buyer made a cup test of the roasted sample. If, for any reason, he suspected that the green sample and the roasted sample were not from the same lot, he roasted the green sample for a cup test. If satisfied, he ordered "subject to confirmation of sample." Thereupon the salesman determined which sampling company in New York was preferred by the buyer and forwarded to it the brand name and lot number to be tested.[2] The sampling company drew a sample from each bag of the lot. A composite roasted sample then was made the subject of a cup test by the buyer.

If the buyer continued to purchase through New York merchants or brokers, he was assured of quality, since he could reject shipments which did not conform to specifications. He had been able to secure continuity of shipments. In 1922, however, the buyer believed that warehouse stocks in New York were not sufficient to provide an adequate supply at all times. Smaller quantities could be ordered from New York than from Brazil. Purchases from planters had to be made in quantities of 250 bags or more in order to secure shipment. This was more than was desired customarily. The buyer had nothing to do with the details of shipment in Brazil. He did have to attend to marine insurance and to customs details at Philadelphia. On the other hand, prices paid were from ¼ to ½ of 1 cent per pound higher, f.o.b. New York, than when imported directly, cost and freight, Philadelphia. In addition, the Brinmer Wholesale Grocery Company had to pay freight from New York to Philadelphia.[3] The costs of services performed or the profits made by Brazilian commissionaires, Brazilian exporters, New York importers, or New York brokers caused the difference in the price of green coffee. New York importers performed warehouse functions and attended to customs details and forwarding for their customers.

[2] Sampling companies in New York specialized in drawing and testing samples of green coffee in private or public warehouses in that port. They were employed both by sellers and buyers of green coffee.

[3] Freight quotations by Pennsylvania R. R. System:

Green coffee—carload, minimum weight 30,000 lbs., 19.5 cents/100 lbs.; less than carload, 23 cents/100 lbs.

A policy of purchase from Brazilian planters was open to question because crops varied from year to year. The New York coffee exchange had established eight grades of coffee, determined by the number of imperfections per pound of green coffee, but planters could not be relied upon to conform to these specifications. Samples were not possible or feasible because of the time consumed in transporting them. Orders had to be placed, therefore, on exchange numbers and on descriptive terms, such as medium, light, heavy, acid, or sweet. Such an informal classification was extremely inadequate because of the different interpretations which the individual planters might place upon the relative terms of description. Sailings to Philadelphia from Brazil had been infrequent and uncertain but were becoming more regular.

A broker represented the coffee planter in Philadelphia. When orders were placed with him, he cabled them to the planter. The purchaser then arranged payment by establishing a dollar letter of credit with his bank in Philadelphia, which forwarded the original to its correspondent in Brazil. A copy of the letter of credit was given to the broker by way of confirmation and sent by him to the planter. The planter received payment on presentation of shipping documents to the correspondent bank in Brazil. Title to the coffee, shipped on terms of cost and freight to the point of destination, rested with the purchaser after the coffee was loaded upon the boat at the port of shipment. The Brinmer Wholesale Grocery Company thus incurred the risk that the coffee might not meet the specifications. The distance was too great to permit a return of the shipment and the company's only recourse would be refusal to make further purchases. If shipments were delayed, the buyer might have to buy in the New York market in order to secure a continuous supply. According to the best information obtainable from other customers of the planter, he was reliable and had proved his ability to carry out his agreements for direct shipments. The buyer, accordingly, decided to purchase directly from the planter although it was contrary to his general policy of purchasing coffee.

15. Raynet Rubber Company

ESTABLISHING CONNECTIONS IN SINGAPORE BY RUBBER BROKERS

In 1921 the Raynet Rubber Company was organized in New York City as a partnership for rubber brokerage.[1] The partners were familiar from long experience with the methods of making transactions in the rubber industry and had many acquaintances among the New York rubber merchants. The bulk of rubber shipments from Europe to the United States came from London; but a small percentage came from other parts of Europe. Frequently rubber prices at London or Hamburg were lower than at Brazil or Singapore. A broker needed connections at one or more of the actual producing centers, however, in order to keep buyers informed of daily price fluctuations.

The senior partner of the Raynet Rubber Company appreciated the value to his business of reliable foreign connections. Connections with the few European market centers which shipped rubber could be arranged easily, and, in many instances, by correspondence. It was practically impossible, however, to arrange by correspondence for connections in a rubber producing center. The senior partner decided, therefore, that the interests of the business warranted his taking a trip to Singapore for the purpose of making such connection.

Practically all the rubber produced in Malaya and in the Dutch East Indies is shipped or transshipped from Singapore. At the weekly rubber auctions in Singapore, the offerings of many rubber

[1] Both manufacturers and merchants import rubber into the United States. A few manufacturers own rubber estates in the producing centers; in other instances, manufacturers contract for the output of certain estates. Other manufacturers import directly through agents in the producing centers and usually maintain representatives who are associated with the organization of the foreign buying agents. Such representatives make sure that the agents' purchases of rubber correspond to the quality and quantity ordered and that the buying agents act in the best interests of the manufacturer.

Most rubber merchants in the United States are located in New York City. They import for their own accounts and sell directly or through brokers to manufacturers. Occasionally, such merchants have their own buying connections abroad, but it is more usual for merchants to purchase through rubber brokers. Rubber brokers are in constant communication with the various points from which rubber is shipped and ordinarily have their own connections at all such points. Brokers receive daily offers for shipment and communicate them to the rubber merchants. When a merchant accepts an offer, his contract is with the foreign shipper, since the broker acts only as a go-between in bringing the buyer and seller together. The quoted price of the rubber includes the broker's commission. Brokers usually make their offers to rubber merchants only, as it is considered a breach of ethics for brokers to sell to manufacturers.

estates were quoted and sales were made. In addition, many estates maintained agents in Singapore and frequently one agent acted for a number of estates. These agents supervised the sale of the estate rubber and acted also as buying agents in procuring estate requirements. Many small estates and many estates owned or controlled by natives had no agents but made all sales directly from their estates to resident buying representatives or at the rubber auctions.

The senior partner of the Raynet Rubber Company found that most selling agents were English-controlled companies with European personnel. Most of the companies had been engaged in business for many years and were thoroughly reliable. Most of them, however, already had sufficient connections. After investigating a number of native producers, the senior partner met a Chinese named Soon Tye, who was the owner of an estate on Singapore Island. This Chinese had been in the habit of selling his product at the Singapore auctions. His bank reported him to be financially responsible and other Singapore companies had a high regard for his honesty and business integrity. Soon Tye had incorporated his holdings, but he still controlled the operations of the company. It was impossible, however, to get accurate figures as to the amount of capital actually involved in the operation of his estate. A careful investigation, however, showed that the estate was up-to-date in every respect, and was managed conservatively and operated efficiently. Production seemed to be stable and the rubber produced was of high grade. The senior partner of the Raynet Company learned that Soon Tye was willing to establish direct relations with New York buyers. He was prepared to furnish the Raynet Company with daily cables of offerings and conditions in the rubber market, and was willing to allow a 2% commission on all orders which the company placed.

Fluctuations in the price of rubber made the selection of a reliable connection particularly important. Merchants in New York ordinarily purchased for future delivery, and it often happened that in the time which elapsed between the sale and the date of shipment by the Singapore producer, the price fluctuated to such an extent that the producer could receive more for his rubber by selling at the Singapore auctions than by shipping in response to his New York engagement. For this reason, the senior partner would have preferred to deal with a European

organization since he distrusted the reliability of Oriental companies, even if they were financially sound. Nevertheless, the senior partner decided to place orders with Soon Tye because all the reports concerning his business and his business integrity were favorable.

In July, 1924, the Raynet Company received a cable offer from Soon Tye of 50 tons of rubber at 16 pence per pound. The Raynet Company immediately communicated with merchants in New York City and succeeded in placing the entire quantity with one merchant. Acceptance of the offer was cabled to the producer at Singapore, and, in accordance with the usual practice, the New York purchaser opened an irrevocable confirmed letter of credit which, in this instance, was at 60 days' sight on London. By the first of August, therefore, the Chinese producer in Singapore was entirely secure in the transaction. A few days after his purchase, the New York merchant had contracted to sell the rubber for arrival early in November.

During August, the price of rubber advanced so that by the early part of September rubber sold at the Singapore auctions at a price higher than the July offer of Soon Tye. Instead of making shipment to the New York purchaser in September, Soon Tye sold his entire output at the Singapore auctions.

When the purchaser in New York failed to receive the declaration of shipment by the first of October, he asked the Raynet Company for the reason. The Raynet Company could give him no information at the time, but within a few days received word from the Singapore producer that he did not propose to ship the rubber. The company communicated this information to the New York merchant. Although the merchant had a case in contract against the producer in Singapore, this right, at a distance of 12,000 miles, was intangible as a practical asset. The merchant, however, was obliged to fill his contract with the manufacturer, especially since he valued his own business reputation. The buyer accordingly went into the New York market and bought, at the current price of 34½ cents a pound, 50 tons of rubber of the same grade as that contracted for in Singapore. The merchant had engaged to resell the original purchase at 33 cents a pound, which would have netted him a profit of about 1 cent a pound on the purchase price of 16 pence. Under the circumstances, however, he took a loss of 1½ cents a pound on 50 tons of rubber; a total loss of $1,500.

Although the Raynet Rubber Company did not hold itself responsible for the loss sustained by its client, it appreciated the importance in establishing a successful business of acting for sellers who at all times would fulfill their obligations. One of the partners accordingly left for Singapore for the purpose of making new arrangements.

C. CONTROL OF PRODUCTION IN FOREIGN COUNTRIES

16. Downing Plate Glass Company

REESTABLISHMENT OF FACTORY IN BELGIUM FOR IMPORT INTO THE UNITED STATES

The officers of the Downing Plate Glass Company in 1921 had to decide whether to rebuild a factory in Belgium which had been destroyed during the German invasion in 1914-1918, or to withdraw from foreign manufacture. The original factory had been bought intact by the company in 1900 and the Belgian administrative and operative force had continued with the new ownership. The destruction of the factory presented the problem of its reestablishment in 1921 under economic conditions quite different from those which had affected purchase.

The manufacture of polished plate glass in the United States increased from 9,000,000 ssuare feet in 1896 to 75,000,000 square feet in 1917. The development of the automobile industry and the increasing use of plate glass in construction and in display cases had caused the bulk of the expansion. With the exception of a few grades of clay and emery, all the raw materials needed for domestic manufacturing were produced in the United States. The use of foreign clays was not essential and American emery was used, although it was less satisfactory than that imported from the Turkish and Greek islands. The evolution of the plate glass industry after 1896 had affected practically every department, and hardly a building or machine in use in 1920 had been in service 25 years before the Downing Plate Glass Company had improved its processes through the expenditure of many thousands of dollars.

The importation of European plate glass into the United States

doubled between 1899 and 1914, but its ratio to domestic plate glass production decreased slightly. The imports of plate glass were mostly to cities on or near the Pacific, Atlantic, or Gulf coasts. The saving in freight rates to those cities from the European factories, compared to the real rates from the Pittsburgh plant to the coast, counterbalanced the import tariff. Only the best qualities of plate glass could be imported economically because of the high tariff charges.

In 1904 an association, known as the International Convention of Plate Glass Manufacturers, was formed to alleviate the bad effects of the keen competition among its members. It included 25 companies, whose factories were located in France, Belgium, Netherlands, Germany, Austria Hungary, Italy, and practically all the European plate glass manufacturers except one English firm and the Russian factories. Its object was to curb overproduction and, by equalizing production and consumption, to regulate prices. The earnings of several of the factories were as high as 83% per annum on their capital, and annual dividends as high as 30% were paid. In order to reduce the productive capacity and regulate output, the syndicate reduced the number of machines used instead of closing down during any of the working days of the year. The board of management of the syndicate met every three months to regulate production. All selling prices were fixed by the association and usually were followed by the independent companies. A corporation was organized in 1912, which became the syndicate's sole selling agency. Besides regulating the production of every factory in the syndicate, it purchased the complete output at a price which it determined and sold it throughout the world at prices and under conditions which it fixed. The corporation controlled every market of the world except that of the United States, where approximately half the world's production was consumed. Depending for its profits on its trade in other countries where it dictated prices, the syndicate could afford to sell in the American market at a lower price than elsewhere in order to keep its factories in full operation. The Downing Plate Glass Company was not a member of the syndicate.

American plate glass manufacturers maintained that they were dependent on a protective tariff in normal years. But foreign competition was removed by the war in 1914, and American manufacturers of plate glass entered foreign markets. The value of imports into the United States decreased from $511,058 in 1913 to $210 in 1918, while the value of exports increased from $35,164 in 1913 to $3,156,627 in 1918. The Downing Plate Glass Company, however, expected to lose its export market after peace had been restored and the European manufacturers had reestablished themselves; no plans for continuance of exports were regarded as feasible. The proposed tariff rates in the Fordney-McCumber Act increased the duty on plate glass over that charged by the Underwood Tariff Act. Comparative rates were:

Classification	Rate of Duty per Square Foot		
	Act of 1909	Act of 1913	Act of 1922
Not exceeding 384 square inches...	$.10	$.06	$.135
384 square inches to 720 square inches	.125	.08	.16
Above 720 square inches	.225	.12	.21

The glass manufacturers maintained that the protection afforded by the Underwood Law was inadequate, especially on the sizes of plate glass under 10 square feet. The percentages of imports of each specified size during 1913-1914 were: not exceeding 384 square inches, 3.7% in 1913, 6.54% in 1914; above 384 square inches and not exceeding 720 square inches, 71.05% in 1913, 63.64% in 1914; above 720 square inches, 25.25% in 1913, 29.82% in 1914.

The plate glass imported consisted mainly of the finer and more expensive grades. Most of it was used for mirrors. Imports of plate glass into the United States from 1912 to 1921 were:

Year	Square Feet	Value
1912	1,001,332	$ 260,568
1913	2,197,161	511,058
1914	2,111,096	489,359
1915	15,865	7,305
1916	11,869	10,160
1917	3,504	6,503
1918	275	210
1919	4,173	3,055
1920	2,569,565	2,271,288
1921	3,106,659	2,069,607

After the passage of the Underwood Law in 1913, the

continental syndicate prevented excessive importation of plate glass into the United States by its control of prices and production. The prices charged by the syndicate were high and were continued even after the lower duties became effective. If open market conditions had been permitted, or if the syndicate had made good its threat to quote special prices for the United States market, it could have overloaded the market, especially in the smaller sizes. The individual manufacturers in the syndicate were restive because the prices charged excluded them from the United States and caused them to check their output in order to prevent overloading their own markets. Repeated debates were reported on the advisability of a special price to the American market that would enable the foreign factories to operate at capacity and sell their surplus in the United States. Frequently the prices charged in the past by foreign companies in the United States were as much as 30% to 40% lower than those charged in the home markets. Although the companies necessarily did not sell below cost, the utilization of the surplus output reduced the cost of the entire product decidedly and the profit on the plate glass sold in the other markets was increased proportionately.

The cost of manufacture in the Belgian plant of the Downing Plate Glass Company, in common with continental plate glass factories, was less than the cost in American factories. In 1921 the Downing Plate Glass Company presented cost figures to the Finance Committee of the Senate to support the demand for a higher tariff rate on plate glass; in Belgium, the cost was asserted to be 25½ cents a square foot, while the cost in the United States was said to be 55.85 cents. Production in 1920 had reached the level of 1914. The foreign factories had the advantage of a better trained and more skilful labor force than the American factories had. Belgium manufacturers, generally, had the advantage of lower costs and superior workmanship. Because of the high freight rates from the center of the plate glass industry around Pittsburgh to the Pacific Coast states[1] and the lower costs of production in the European factories, the continental manufacturers were enabled in those states to undersell the American factories, even with the high tariff protection of the Fordney-McCumber Tariff Law. The syndicate had resumed control of production after the treaty of peace in 1919. Members, however, were not restricted in price quotations to the United States.

[1] In 1924 the rate on plate glass direct from Antwerp to San Francisco via the Panama Canal was 32s per 1,000 kilos, or approximately 35 cents per 100 lbs. Rail rates from Pittsburgh to San Francisco were from $1.75 to $2.50 per 100 lbs. in carload lots.

Following the treaty of peace with Germany in 1921, the Downing Plate Glass Company was awarded $3,000,000 damages against the German Government because of the destruction of the Belgian factories during the German occupation. The officers of the Downing Plate Glass Company decided in 1921 to rebuild the factory in Belgium. They believed that the low costs of manufacture would enable it to compete with the European syndicate and other independents in the foreign markets. The cost of rebuilding was approximately the same as the claim against the German Government.

17. Lamberti Importing Company

ESTABLISHMENT OF A CURING PLANT FOR CHEESE IN ITALY

The Lamberti Importing Company imported macaroni, cheese, olive oil, olives, and canned vegetables from Italy which it sold to wholesalers and retailers in the United States and Canada. The office of the company in the United States was located in New York. A subsidiary purchasing company, incorporated in Italy, maintained offices and warehouses at Rome, Naples, and Milan. The Lamberti Importing Company's total purchases were approximately $10,000,000 annually, 5% of which was for cheese. There were eight important varieties of Italian cheese, of which the principal one came from provinces surrounding Rome. Roman cheese was manufactured by individual shepherds and sold to salters. The salters cured and aged the cheese and sold it to wholesalers who resold it to importers in foreign countries. Its chief use in the United States was for grating in the preparation of macaroni.

Prior to 1919, the Lamberti Importing Company had bought cheese from wholesalers in Italy. In that year, however, it established a buying organization of four Italians attached to the office in Rome. These men applied their efforts exclusively to the purchasing of Roman cheese directly from salters located

in Rome. Purchases from 1919 to 1922, which averaged approximately 1,000,000 pounds annually, constituted one-half of the company's total imports of cheese. The quality of the cheese purchased by the company's buyers from the salters was not always uniform. Since the Lamberti Importing Company sold the cheese under its own private brand, it desired to insure uniformity of quality. The president of the Lamberti Importing Company suggested the possibility of purchasing directly from the shepherds. An investigation was made by the office at Rome to discover the possibilities and advantages of this suggestion. It had not been attempted before by any importer.

It was found from this investigation that the quality of the cheese varied with the feed of the sheep, weather conditions, and the cleanliness and care of the shepherds who manufactured it, as well as with the methods and skill of the salters in curing. When the buyers of the Lamberti Importing Company purchased from the salters, they had no way of knowing from what shepherds the cheese was obtained originally. The company believed that it could establish direct relations with those shepherds who had reputations for care, cleanliness, ability, and favorable land on which to raise sheep.

The company faced the difficulty, however, of obtaining the right men to do the purchasing. Although the buyers then employed were experienced in the purchasing of cured cheese, they had had no experience in purchasing from shepherds. It was believed, however, that the addition of a man with such experience to the buying organization would minimize this difficulty. Although the number of shepherds was greater than the number of salters, they were located so near Rome that an increase in the organization of more than one or two men was not considered necessary. No difficulty was anticipated as a result of possible antagonism of the salters from whom the Lamberti Importing Company had purchased, although it would be necessary to continue to depend upon salters for supplies during the transition period. No obstacle was foreseen in the establishment of satisfactory relations with the shepherds.

The net profits of the important salters of Rome were found to average about 15% of gross sales. The president estimated that the Lamberti Importing Company could save probably the entire 15%, since he believed that the company could do its own

curing as economically as the salters and purchase as large or larger quantities than the average salter. The company, moreover, would have the assurance that the cheese was properly cured and aged. The company had had no experience in the process, which was not difficult and required the labor of only a few men. It was believed that the necessary experienced employees could be obtained to perform and supervise this work and that sufficient space could be rented in a bonded warehouse in Rome.

The city levied a tax on shipments of cheese into the city but maintained bonded warehouses to which cheese destined ultimately for any locality outside Rome might be shipped without payment of the tax. The company could secure a section in one of these warehouses which was connected with the railroads by spur tracks. The Tiber River and canals offered, furthermore, a means of transportation to the coast. The company had sufficient capital to invest in inventory during the four to five months curing period. It was not necessary to organize a separate company, and taxes were moderate.

In 1923 the Lamberti Importing Company leased a section of a bonded warehouse in Rome and prepared to cure cheese which it purchased directly from the shepherds. A new buyer experienced in purchasing from shepherds was added to the organization.

18. Garnette Company

ESTABLISHMENT OF A FACTORY FOR THE PREPARATION OF EGG PRODUCTS IN CHINA

In 1914 the Garnette Company considered the establishment of a factory for the preparation of egg products in China. The company's main office was in New York and it operated 10 factories in the dairy centers of the Middle West. Through these factories it controlled one-third of the production of frozen eggs and nearly all the production of dried eggs in the United States. The Garnette Company was able financially to establish a plant in China which would be capable of producing the same output as any of its factories in the United States, and it could enlarge the factory if the experiment proved successful.

The Garnette Company used strictly fresh eggs in the manu-

facture of its egg products. It purchased from the large henneries and egg wholesalers fresh eggs which had slightly cracked shells. The eggs were examined by the light process for the elimination of the unfit. Also, after the eggs were broken for use, the defective ones were discarded. It was preferable to use the eggs as soon after purchase as possible. The length of time which they could be kept before use depended upon the temperature in which they had been shipped to the factory. Refrigerator cars enabled Garnette Company to secure its supply of eggs from sources distant from the factories. In the manufacture of egg products, extreme care was taken to insure satisfactory sanitary conditions in the factory. All employees who handled the product during the process of manufacture were given medical examinations.

Dried and frozen eggs were sold in three ways: as yolks, whites, or mixed yolks and whites. An egg was reduced two-thirds in content when dried. The length of time which frozen and dried eggs would keep varied with the temperature. The Garnette Company had records of keeping its product in a usable condition for 15 years. The Garnette Company established a price for the sale of its egg products at the beginning of each year. Dried whole eggs sold for about 80 cents, dried yolks for about 70 cents, and dried whites for about $1.50 a pound. The price of frozen eggs was about one-third of the price of dried eggs. Dried and frozen egg products were used almost entirely by bakers who preferred them to shell eggs because they were cheaper to transport, were more uniform in quality and price, and could be kept longer.

The 1913 tariff on dried egg products was as follows: Ten cents a pound on dried whole eggs, and 10% ad valorem on dried yolks. Dried whites were classified with the chemicals as albumen and bore a duty of 3 cents a pound. Frozen yolks and frozen whole eggs bore a duty of 2 cents a pound, and frozen whites 1 cent a pound.

An increase in the consumption of eggs and a decrease in the surplus stocks of eggs encouraged the company in 1914 to look for new sources for its raw materials. Also, a British competitor who had a factory in China began at this time to sell egg products for three-fourths of the price set by the Garnette Company. The Garnette Company used a patented process which resulted

in a superior quality of dried eggs in comparison to those of any American competitor. Although the British company's frozen eggs had been found to be as satisfactory as those of the Garnette Company, competition in the sale of the latter was serious. China and Austria offered the best possibilities as foreign sources of supply. The outbreak of the World War eliminated Austria from further consideration.

China had long been a large egg-producing country and there had developed a flourishing export trade of shell eggs to Japan. The season in northern China for producing eggs was short. In southern China hens did not thrive so well because of the warm climate. Central China, in the vicinity of the Yangtse Valley, was the best egg-raising section. The eggs produced in China were about five-sixths the size of those produced in the United States. Eggs equal in quality and without damaged shells, nevertheless, could be purchased for one-half the cost in the United States of eggs with cracked shells. The prices varied slightly in the different districts, more on account of the bickerings of the egg merchants than because of the seasonal fluctuation in the product. In China, eggs were purchased from the farmers by merchant collectors who sold them to egg wholesalers. The Garnette Company could purchase its eggs from these wholesalers or, in order to eliminate the unreliable dealings with wholesalers, it might be possible to establish collecting stations of its own.

If a factory were established, it would be necessary to pay the executives sent to China twice as much as they were receiving in salary in the United States. About 10 specialists and superintendents would be needed. Most of the labor which would have to be employed in the factory would be skilled. Skilled labor in China of the kind needed was paid about the same as in the United States; unskilled labor was paid about one-fourth as much as in the United States.

Transportation costs of the shell eggs to a factory in China would be about three-fourths as much as in the United States. There were no refrigerator cars and only a few railways; consequently the area which would supply the factory would be less. Rail transportation was as fast as in the United States; for example, eggs shipped from Nanking in the evening could be received in Shanghai in the morning, a distance of 193 miles. Boat transportation was slower than in the United States but highly devel-

oped for transporting farm products in the vicinity of Shanghai. Ocean freight rates on the finished products from China added about 2 cents a pound to the cost of the products delivered in the United States.

Of the available centers in which to locate a factory, Shanghai seemed to be the most suitable. Railroad facilities, the canals, and the rights of an international settlement caused the Garnette Company to consider Tientsin, but its environs proved a less suitable source for shell eggs. Shanghai was one of the treaty ports in China in which foreign residents had the same legal rights as in their native countries. This afforded a foreign firm the needed protection. The city contained an international settlement, a French concession, and the old Chinese city. Favorable sanitary conditions prevailed; drinking water was obtainable; and suitable social opportunities for Americans existed. The international settlement offered all the advantages of a modern city. Shanghai was situated on the Whang Poo River about eight miles inland from the sea and the Yangtse River. The most satisfactory site for the location of the Garnette Company's factory was on the north side of the Whang Poo River about four miles from the center of the city of Shanghai and four miles from the mouth of the Whang Poo River. Land could be purchased there for about the same price as land in a similar location in the United States. Shanghai offered suitable facilities for transportation. There was a railroad terminal below the city on the Whang Poo River from which eggs could be transferred to flat boats and carried down the river to the city. Boat transportation down the Yangtse River and up the Whang Poo was satisfactory. Other egg factories owned by European and Chinese companies had been established in Shanghai.

The Garnette Company was unwilling to import dried and frozen egg products from China not produced under their own supervision because it wished to control the sanitary conditions under which they were made. Neither did it wish to avail itself of the variation in the tariff between whites and yolks by importing from China yolks and whites separately and combining them in the United States because an inferior product resulted.

Although the cost of manufacture would be about 1 cent higher per pound of product than in the United States, the cost of the finished product would be less, because shell eggs could be purchased at such a low price. By selling the Chinese product in the United States at a price equal to the cost to produce it in the United States, the Garnette Company could reduce its existing schedule of prices to the level of the British competitors' prices and make a profit as a result of a probable increase in volume of sales.

A possible increase in the tariff, which might result in the exclusion of egg products from the United States, made a decision to establish a factory in China precarious. The Garnette Company contemplated making no provision to sell its product outside the United States. Finally, inability to keep eggs during the summer months would necessitate closing the factory or reducing the output for a part of each year.

The company established a factory in Shanghai in 1914. Because of the reduced cost of manufacturing the product and the resulting increase in sales, the company in 1920 replaced its original experimental factory with one capable of producing an output equivalent to all 10 factories in the United States. The 10 American factories continued in operation. One large plant was erected in China instead of several smaller plants because of the higher costs of supervision in China than in the United States. Thirty-one collecting stations for shell eggs were established within a radius of 500 miles from Shanghai.

The Tariff Act of 1922 brought up new problems in connection with the Chinese factory. Frozen eggs duties were increased to a uniform rate of 6 cents a pound and dried egg products to 18 cents a pound whether purchased as whole eggs or yolks. Frozen egg products, on which there was the keenest competition, could no longer be imported under this increased duty. Dried eggs, however, could be brought in at an increased price over the duty, since competition was less in this product than in frozen eggs. The existing situation was due to the fact that patented processes of manufacture controlled by the company enabled the Garnette Company to produce dried eggs of a superior quality to that of any of its competitors. It was proposed that the company market in Europe the frozen eggs produced in the Chinese factory. A ready market for food products existed at the time in most European countries and it was thought that sales could be developed there sufficient to take the frozen egg production of the Chinese plant.

19. Satterlee Rope Company

ACQUISITION OF AN INDEPENDENT SOURCE OF SUPPLY OF A RAW MATERIAL CONTROLLED BY A FOREIGN MONOPOLY

The Satterlee Rope Company was dissatisfied with purchasing its sisal from a monopoly which demanded prices deemed unfair by the company and which occasionally delivered sisal of an unsatisfactory grade. During the winter of 1923, a sisal plantation in Cuba was offered for sale to the Satterlee Rope Company. At that time the plantation was producing a quantity of sisal equivalent to 5% of the year's requirements of the Satterlee Rope Company. It was capable of expansion to the extent of producing 10% of the Satterlee Rope Company's requirements of sisal, an amount which was believed to be sufficient to weaken the monopoly. Since the offer seemed a particularly favorable one, serious consideration was given to it.

The United States consumed about 175,000 tons, or 85% of the world's supply of sisal. Approximately one-fifth of the binder twine of the United States was manufactured by the Satterlee Rope Company. About 60% of the output of the company's factory was in binder twine made from sisal; the remainder of the output was Manila rope. Binder twine was manufactured in uniform quantities throughout the year, although the sale for the product attained a peak two or three months before the harvest season for wheat.

Nearly all of the world's production of sisal was used for the manufacture of binder twine. Seventy-five per cent of the world's supply of sisal was produced in Yucatan and the best grade came from that region. Sisal was produced also in Java, in what was formerly German East Africa, and in some of the West Indies. Attempts had been made to raise the product in Florida but were unsuccessful because of high labor costs and the unsuitable quality of the soil. Sisal fiber was obtained from the leaves of the henequen plant. Seven years were required for the plant to mature. After it bloomed the plant was of no further use; but the blossoming could be prevented after maturity by the regular and frequent cutting of certain portions of the leaves which contained the fiber. This resulted in the necessity for constant production and steady sale of sisal throughout the year.

Occasionally in the production of binder twine manila was substituted for sisal because it had greater tensile strength and gave about one-sixth more yardage to the pound in the finished product. The price of Manila usually made it too expensive for its use in the production of binder twine.[1] Although Manila binder twine was stronger than sisal binder twine, it was eaten by grasshoppers in the wheat fields and, therefore, was not as suitable for the purpose. Manila was particularly valuable for rope making.

The Satterlee Rope Company purchased only Yucatan sisal in order to obtain uniformity and quality in its product. Previous to 1915, the date of the establishment of the Mexican monopoly, the Satterlee Rope Company purchased sisal from American purchasing agents. Since 1915 it has purchased its Yucatan sisal from the American representative of the Mexican monopoly.

In 1915 the Congress of the state of Yucatan passed legislation in order to control the sisal market. Accordingly, the Reguladora, which comprised about 96% of the producers of sisal in Yucatan, was established. This association was responsible for the organization in the United States of the Pan-American Commission Corporation which undertook to finance the sisal producers in Yucatan in return for the exclusive right to sell their product in the United States. Between 1915 and 1920, purchasers of sisal had to pay the prices demanded by the Pan-American Commission Corporation. At times during that period, prices were raised unnecessarily high, in the estimate of the Satterlee Rope Company. Conservation in the use of twine and the substitution of other fiber led to a reduction in the importation of sisal in the latter part of the year 1919 and early in 1920. Consequently, the

[1] Comparison of Average Prices of Sisal and Manila*

Year	Import Price of Sisal	Import Price of Manila	Year	Import Price of Sisal	Import Price of Manila
1902	$0.059	$0.083	1913	$0.054	$0.091
1903	.068	.086	1914	.051	.085
1904	.065	.077	1915	.049	.077
1905	.068	.087	1916	.054	.085
1906	.069	.083	1917	.133	.132
1907	.067	.089	1918	.161	.166
1908	.060	.076	1919	.122	.125
1909	.049	.051	1920	.082	.135
1910	.051	.050	1921	.052	.082
1911	.045	.051	1922	.046	.055
1912	.048	.059	1923	.048	.067

* *Trade Information Bulletin No. 200,* Bureau of Foreign and Domestic Commerce.

Reguladora and its sales agent had nearly a year's supply of sisal unsold upon which financial advances had been made. The Reguladora could not sell even at 2½ cents a pound. Failure to sell this supply, which had been purchased from the producers at high prices, led to the failure of the Reguladora and Pan-American Commission Corporation. Reorganization followed under the name of the Commission Exportadora de Yucatan for the Yucatan producers' combination, and the Sisal Sales Corporation, a Delaware corporation, as its American sales and fiscal agents. The monopoly secured from the Mexican Government an export tax on new sisal, high enough to permit the Sisal Sales Corporation to dispose of its surplus stock at a price almost as high as that which they paid for it. Purchasers were required to accept a proportion of the old stocks on all sales of new sisal.

The Satterlee Rope Company objected to what is considered unfair practices by the monopoly. The company believed that the Sisal Sales Corporation misrepresented the condition of the old sisal to the Satterlee Rope Company, since two cargoes which it received had to be thrown away, because it was unfit for use. It was possible to bring suit against the Sisal Sales Corporation in an attempt to prevent the maintenance of the monopoly, but such action was discouraged since previous investigations by the United States Senate and court action by the Department of Justice had borne no results. The Secretary of Commerce suggested that the Satterlee Rope Company and its competitors advocate a law to permit the establishment of a purchasing association to buy those products for which American manufacturers had to depend wholly upon foreign sources. The Satterlee Rope Company was not in sympathy with this proposal, since its previous experiences in a cooperative buying association had not been fortunate. The alternative which remained appeared to be the purchase of its own sisal plantation.

A decrease in the sale of sisal by the Mexican monopoly would lead to the discontinuance of the stripping of the Yucatan plants, with the result that they would bloom and die. Thus, if the Satterlee Rope Company could produce enough sisal to cause the Mexican monopoly to lower its price in order to dispose of its product, the monopoly would be weakened. The Satterlee Rope Company believed that the production of 10% of its own requirements might be sufficient to do this. Ten per cent of its own

yearly requirements also was the minimum production of sisal by which, with the aid of other fibers as substitutes, the company could keep its mills in operation and stay out of the sisal market when it wished.

Examination of the henequen raised on the Cuban plantation showed it to be equal in quality to that raised in Yucatan. The plantation was located within two or three miles of a seaport from which an American steamship company maintained regular service to New York. About 3,500 tons of sisal could be raised yearly on this plantation if the whole of it were cultivated. The price asked seemed a fair one. The Satterlee Rope Company was able financially to make the purchase. The delivered cost of the product under the existing acreage yield on this plantation was about 4 cents a pound, or 1 cent cheaper than the current delivered price quoted by the Sisal Sales Corporation. Cuba seemed to be a suitable place for the purchase of a plantation because of its proximity to the United States and because the company believed that an American company might be given greater protection in Cuba than in Mexico.

Difficulties in the supervision of the plantation in a foreign country, nevertheless, made the company prefer to purchase its sisal rather than to raise it. It would be difficult to get laborers and overseers familiar with the product. The expansion of the plantation would require at least seven years because of the slowness in the maturity of the henequen plant. In the meantime the monopoly might again fail, with the result that the company could purchase sisal as cheaply as it could produce it.

It was difficult, furthermore, to determine how much lower the price on sisal would be without the monopolistic interest. The dependent producers were so few in number and produced such small quantities that their price followed closely the price established by the Sisal Sales Corporation. The selling price for sisal was close to that of Manila, since exorbitant prices for sisal caused the prices of the two to converge and the consequent substitution of Manila for sisal. It, of course, would be inadvisable for the Satterlee Rope Company to produce a substantial proportion of its own sisal unless operation of its own plantation at less cost than the Yucatan producers could be attained and maintained.

The Satterlee Rope Company purchased the plantation in the

spring of 1924. It also filed a complaint against the Sisal Sales Corporation with the Federal Trade Commission.

20. Harmon Sugar Company

PURCHASE OF SUGAR PLANTATION IN CUBA

The Harmon Sugar Company operated a sugar refinery in a large city on the Atlantic seaboard. In 1916 its output of refined sugar was 400,000,000 pounds. At that time the company had completed plans for an expansion of its plant which would make possible an annual output of 800,000,000 pounds in order to satisfy the increasing demand for sugar in the United States and foreign countries. It was becoming increasingly difficult to obtain sufficient supplies of raw sugar from Cuba. The executives of the Harmon Sugar Company, therefore, analyzed the advantages and disadvantages of purchasing a sugar plantation in Cuba in order to insure a source of supply.

A central with surrounding sugar lands having an annual output of 150,000,000 pounds could be purchased at a price which represented an abnormally conservative valuation of the property. Although the production of this central was less than one-third of the requirements of the refinery, it would insure the company of a part of its supply of raw sugar at all times. The company estimated that the cost of producing raw sugar in Cuba was about 2½ cents a pound. The current price in the New York market was about 6 cents a pound, and the company believed that it would increase during the next few years. In periods of rising prices, the Harmon Sugar Company had the greatest difficulty in obtaining a sufficient supply of raw sugar.

The company's experience, however, had shown that the price of raw sugar was not usually much above the cost of production. In fact, the price was at times so low as to result in losses at the plantations. If the Harmon Sugar Company purchased plantations in Cuba, these would be operated at a loss during periods of low prices unless the company should pay its refinery a higher price than the market made necessary for its raw sugar. The company maintained a year's supply of raw sugar at its refinery warehouse.

Wages were increasing and labor used on the plantations in

Cuba was becoming more difficult to obtain. Most of this labor was imported from neighboring islands for the growing and cutting seasons and returned after the harvest was completed. Although the World War had eliminated Europe as a supplier of beet sugar, the executives of the company believed that it would reenter the market and might compete successfully in the eastern part of the United States with American cane sugar refiners. The Government of the United States might place a higher duty on imported cane sugar and hinder its importation from Cuba. This the company believed was unlikely, since Louisiana, Hawaii, the Philippines, and Porto Rico supplied only about 30% of the United States' requirements of sugar. Cuba supplied about 60%, while the remaining 10% came from the beet sugar growers in the United States.

Since ownership of the plantations and the central under consideration would assure the company of part of its supply and would not prevent it from taking advantage of prices lower than the cost of production for the major portion of its requirements, the Harmon Sugar Company purchased them in 1916. It organized and incorporated a separate company, the Harmon Sugar Company of Cuba, to own and operate this property. Incorporation in Cuba was to prevent taxation of the company's earnings in the United States by the Cuban Government. In 1919 and 1921, the company purchased additional plantations and centrals with a combined output of 200,000,000 pounds per year. Subsequently, however, the Harmon Sugar Company did not consider further purchases on account of the possibility of beet sugar competition from Europe and, in periods of low prices, the further possibility of excessive costs of raw sugar resulting from confinement of the greater part of its sugar purchases to the output of its own plantations.

D. IMPORT ASSOCIATIONS

21. Import Associations

In response to a growing opinion that steps should be taken to enable American consumers of imported raw materials to protect their interests in the face of actual or potential combinations of foreign producers and sellers to control prices and production of commodities, Senator Arthur Capper introduced the attached bill into the United States Senate in March, 1924.

68th Congress,
1st Session. S. 2843

IN THE SENATE OF THE UNITED STATES
March 14 (calendar day, March 15), 1924

Mr. Capper introduced the following bill, which was read twice and referred to the Committee on Commerce.

A BILL

To enable persons in the United States to engage in cooperative purchasing, for importation into the United States of raw commodities which are produced principally in foreign countries.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the word "association" wherever used in this Act means any corporation or combination, by contract or otherwise, of two or more persons, partnerships or corporations.

Sec. 2. That nothing contained in the Act entitled "An Act to protect trade and commerce against unlawful restraints and monopolies," approved July 2, 1890, shall be construed as declaring to be illegal an association which engages solely in the purchase of raw commodities in foreign countries for importation into the United States and the sale and distribution of such raw commodities in the United States, or any agreement made or act done in the course of the purchase, importation, sale, or distribution of such raw commodities by such association, where such raw commodities are produced principally in foreign countries, and where the people of the United States are dependent upon the production in foreign countries for the supply necessary to meet their requirements, and where the production, sale, or distribution of such raw commodities is found by the Secretary of Commerce to be controlled by any foreign government, combination, or monopoly: Provided, That such association, agreement, or act is not otherwise in restraint of trade within the United States: Provided further, That such association shall receive into membership all persons, partnerships, and corporations in the United States desiring to join such association, who are engaged, or will engage, in the manufacture or use, for improvement or consumption, and not merely for resale, of the raw commodities imported by such association: And provided further, That there is no discrimination against any manufacturer or bona fide user in the United States of such imported raw commodities.

It is further provided that no association shall engage in the purchase of any raw commodity other than that necessary in the business of the persons, partnerships, or corporations composing the membership of such association.

If any sales of such commodity are made by the association to persons, partnerships, or corporations who are not members of it, such sales shall be made in such quantities and at such prices as are not discriminatory in favor of its members.

It is further provided that if the association's supply of such imported raw commodities is not sufficient to meet the requirements of all members of the association, then each member shall receive from the association a proportionate share of the supply available, based upon the normal requirements of each.

It is further provided that such association shall not be conducted for profit but shall be conducted only for the purpose of purchasing such raw commodities and the distribution of same in this country, at the same price at which purchased by the association in foreign countries, plus an additional sum necessary to cover the actual expense incurred by the association in the handling of same.

Sec. 3. That nothing contained in section 73 of the Wilson Tariff Act of August 27, 1894, as amended by the Act of February 12, 1913, shall be construed as declaring illegal an association as described in section 2 of this Act.

Sec. 4. That every association now engaged solely in activities made legal under this Act, within sixty days after the passage of this Act, and every association entered into hereafter which engages in such activities, within thirty days after its creation, shall file with the Federal Trade Commission a verified written statement setting forth the location of its offices and place of business and the names and addresses of all its officers and of all its members, and if a corporation a copy of its certificate or articles of incorporation and by-laws, and if unincorporated a copy of its articles or contract of association, and on the 1st day of January of each year thereafter it shall make a like statement of the location of its offices and places of business and the names and addresses of all its officers and of all its members and of all amendments to and changes in its articles or certificate of incorporation or in its articles or contract of association. It shall also furnish to the commission such information as the commission may require as to its organization, business, conduct, practices, management, and relation to other associations, corporations, partnerships, and individuals. Any association which shall fail to do so shall not have the benefit of the provisions of section 2 and section 3 of this Act, and it shall also forfeit to the United States the sum of $100 for each and every day of the continuance of such failure, which forfeiture shall be payable into the Treasury of the United States, and shall be recoverable in a civil suit in the name of the United States brought in the district where the association has its principal office, or in any district in which it shall do business. It shall be the duty of the various district attorneys, under the direction of the Attorney General of the United States, to prosecute for the recovery of the forfeiture. The costs and expenses of such prosecution shall be paid out of the appropriation for the expenses of the courts of the United States.

Whenever the Federal Trade Commission shall have reason to believe that an association, or any agreement made or act done by such association, is in restraint of trade within the United States or that it discriminates against any domestic competitor of such association or against any

one who uses, for manufacture, improvement, or consumption, and not merely for resale, such imported raw commodities, or that an association has, either in the United States or elsewhere, entered into any agreement, understanding, or conspiracy, or done any act which artificially or intentionally enhances prices within the United States of commodities of the class imported by such association, or depresses prices of raw commodities produced in the United States, or which substantially lessens competition within the United States in the manufacture of the commodities of the class so imported and their sale thereafter, or otherwise restrains trade therein, it shall summon such association, its officers and agents, to appear before it, and thereafter conduct an investigation into the alleged violations of law. Upon investigation if it shall conclude that the law has been violated, it may make to such association recommendations for the readjustment of its business, in order that it may thereafter maintain its organization and management and conduct its business in accordance with law. If such association fails to comply with the recommendations of the Federal Trade Commission, said commission shall refer its findings and recommendations to the Attorney General of the United States for such action thereon as he may deem proper.

For the purpose of enforcing these provisions the Federal Trade Commission shall have all the power, so far as applicable, given it in "An Act to create a Federal Trade Commission, to define its powers and duties, and for other purposes," approved September 26, 1914.

The need of such import associations is stated by Secretary of Commerce Hoover in a letter to Senator Capper as follows:

Department of Commerce
OFFICE OF THE SECRETARY
WASHINGTON

March 6, 1924

Hon. Arthur Capper,
United States Senate,
Washington, D. C.

Dear Mr. Senator:

In accord with your request I give the following summary of our conclusions as to combinations in our import trade.

The last Congress made a special appropriation to this Department to provide for investigation of imported raw materials essential to American industry which are under control of foreign combinations in restraint of price or distribution. While the reports upon this topic have not all been completed they will be ready at an early date and abundant material is in hand to prove unquestionably that foreign monopolies or combinations are potentially or actually in control of prices and distribution of the following commodities:

Sisal for binding twine is controlled through a combination of producers reinforced by legislative action of the Yucatan Government.

Nitrates and iodine are controlled through a British selling agency and reinforced by export duties in Chili.

Potash is controlled by combinations of German producers.

Crude rubber and gutta percha are controlled by partly legislative and partly voluntary combination of producers in the British and Dutch Colonies.

Quinine is controlled by combination of Dutch producers.

Tin is controlled by combination of British producers.

Mercury is controlled by common selling agency of Spain and Austrian mines.

Coffee is controlled by the Government of Brazil.

Quebracho (for tanning purposes) is controlled by combination of producers and foreign manufacturers.

You will note the importance of most of these commodities to the farmer.

The value of our total imports of the above in 1923 exceeded $525,000,000 and prices are undoubtedly much higher than would otherwise be the case. There are several others of partial control or of minor order aggregating altogether large sums.

The prices of these commodities enter into the cost of living of all our people. An instance of the special importance to the farmer lies in sisal for binder twine, where although present prices are possibly not extortionate, yet a few years ago they were deliberately advanced 300%, and during the period fully $100,000,000 of excess prices was taken from our producers, which apparently did not even reach the Mexican farmer. Such combinations cannot, of course, be effectively reached under the Sherman Act, as they are or can be seated outside of our jurisdiction.

This Department has given a great deal of thought to measures which can be taken in protection of the American consumer. Indirect security can be obtained in some instances by the stimulation of production in other parts of the world free from these controls and in other cases by the encouragement of synthetic manufacture in our own borders. Yet these measures at best require much time before they could afford protection. They will not apply in all cases. We shall be able at a later date to offer some recommendations in these directions.

It is our conclusion that some relief can be reached legislatively. Our exporters and manufacturers are permitted by the Webb Pomerene Act to undertake joint selling agencies abroad under certain restrictions. If by an extension of this Act our consumers were allowed to set up common purchasing agencies for these imported raw materials where there is positive combination in control, I am confident that our people could hold their own in their dealings with such combinations. The danger of such common purchasing agencies attempting to make improper prices against our buying public could be met by provision in the Act to include proper assurance that all consumers who wished to participate would be allowed to act through such common buying agencies with full equality of treatment, that such agencies would not be conducted for profit in themselves, and any other necessary restric-

tions. You already have before you a legislative suggestion of this order which I believe can be simplified into amendments of the Webb Pomerene Act.

There are comparatively limited numbers of primary purchasers of each of these raw materials, and common purchasing agencies would not be impossible of organization. There is active competition amongst our manufacturers in the sale of goods in the production of which these raw materials are used. It is my belief that this competition would naturally result in passing along to the public economies that can be made in the purchase of these materials but in any event provision could be made in the amendment to the Act which could adequately protect our own public against any restraint of our domestic trade by such common buying agencies.

I am confident that a unity of buyers is in the long run stronger than any combination of producers because the producer usually has the disadvantage of being compelled to maintain continuous production whereas the consumer can so organize his business if necessary as to become an intermittent purchaser.

It is my belief that joint action of our consumers dealing single handed with such combination could, in several cases at least, greatly moderate the present cost of these supplies. We seek nothing further than protection against wrongful treatment and our consumers are fully alive to the necessity of proper profits to foreign producers and thus the assurance of full supplies.

I may add that the investigations which have been in course have already given some relief because apparently some of those combinations have realized that immoderate action on their part would stimulate counter activities on ours.

The matter is one of urgent importance and should have early relief.

Yours faithfully,

HERBERT HOOVER,
Secretary of Commerce

Several associations of manufacturers have approved the idea of import associations. The following, from the *New York Journal of Commerce,* is typical of such support:

Washington, January 13.—Federal legislation which will permit American importers of raw materials controlled by foreign monopolies, natural or otherwise, to form cooperative associations for buying of such imported materials is urged by the committee of experts appointed by the Tanners' Council of America to cooperate with the Department of Commerce investigations surrounding the importing monopoly controlled raw materials. "This legislation is imperative, the committee believes, if the United States is to maintain a measure of economic independence with regard to tanning materials or to prevent a serious degree of paralysis throughout the leather industry in the event of an international crisis,"

Opposition to the plan, however, has been expressed. The following editorial from the *New York Journal of Commerce,* August 20, 1925, cites the arguments against import associations as an effective means of remedying the situation:

If there is any way of protecting the American consumer against the actual or potential extortion of foreign selling combines then the country should find it by all means. So far, however, the remedies proposed have not been of a character to arouse enthusiasm. The Secretary of Commerce some time ago suggested the desirability of opposing monopoly to monopoly by permitting American importers to combine in making purchases abroad. It is now reported that at the next session of Congress legislation will be accordingly urged to legalize import combinations under an extension of the Webb-Pomerene Law.

Rubber, potash, coffee, nitrates, and tanning materials are particularly mentioned as belonging to the raw materials controlled at the source of supply by foreign monopolies. The question is whether buyers' monopolies set up for the specific purpose of dealing with organized groups of sellers of these commodities will be able to do more good than harm by their operations. Under careful and constant supervision buyers' combinations might have a very salutary influence in controlling extravagant price demands of selling monopolies, but the opportunities for abuse of their privileges are many and serious, while the balance of advantage unquestionably lies with the sellers. If the latter insist upon exacting every cent the traffic will bear, and more too, the prospective buyers have no adequate alternative sources of supply to which they may turn. They are in such case almost as helpless in combination as in isolation to bring down the high prices of monopolized commodities.

The chief service of legalized purchasing monopolies of the sort that the Secretary of Commerce desires would be to eliminate unnecessary buying competition among individuals, substituting therefor a system of raw material rationing on a uniform price basis. Such a domestic buying monopoly empowered to handle all imports of some essential raw material might easily become an instrument of oppression and an agency for facilitating gross distributive favoritism unless a careful plan could be devised for equitable apportionment or rationing of the limited supplies.

What safeguards would be erected against domestic resales at exorbitant figures? On what basis would the quotas assignable to individual consumers be established? Is there any good reason to believe that large importers whose facilities for direct purchase are better than those of their competitors would be willing to pool their buying strength with that of weaker firms? Buying combinations would in fact tend if fairly managed to guarantee supplies of imported raw materials to industrial consumers who might otherwise be eliminated from the market when offerings were restricted.

Combinations in the import trade assuredly cannot fail to affect domestic business in innumerable and subtle ways often difficult to trace. Since our anti-trust laws commit us to the principle of free competition, legal exceptions to that principle can only be justified under most exceptional conditions. The exactions of foreign monopolies do not seem thus far to warrant resort to a remedy of dubious efficacy which may be productive of fresh evils while incapable of destroying existing ones.

22. Silk Association of America

EFFORT TO IMPROVE QUALITY OF SILK IMPORTED TO UNITED STATES FROM CHINA

The extension of the field of raw silk production was a problem which confronted the American manufacturers of silk because of the expansion of the silk industry. The Silk Association of America, therefore, sought methods to improve the quality of raw silk and to extend its production. Manufacturers in the United States had been so handicapped by the lack of uniform quality in raw silk exported from China that, in 1917, a representative was sent through Central and Southern China by this association to investigate the methods of cultivation of silk worms and the processes of manufacture. Much of the Chinese silk imported by the United States was rejected because of inferior quality, generally traceable to diseased silk worms and to careless methods of reeling and marketing silk. This class of product should have been eliminated before it entered the export trade. Since the American manufacturer needed an even and clean silk of the greatest possible tensile strength it was deemed necessary to educate the Chinese producers to fulfill these requirements in order to insure an uninterrupted supply of raw materials of the desired quality from that market. The establishment of a testing house in China to standardize the silk shipped to America was not feasible unless the production of suitable raw silk was increased substantially. If a testing house was deemed desirable, the association had the choice of sponsoring it or encouraging another agency to establish it.

For hundreds of years, the bulk of the world's supply of silk came from China. During the 50 years preceding 1917, however, Japan assumed predominant leadership in the raw silk market.

In that year 75% of the raw silk exported from China and Japan to the United States was shipped from Japan[1] and continued to be a vitally important industry. The Chinese producer regarded domestic consumption of raw silk as his principal market, and for that reason improved quality was of minor importance to him. Increased production was the hope of the Silk Association of America. That could be secured only through the development of disease-free silk worm eggs. This was undoubtedly a Chinese problem, but it was found impossible to raise funds locally. Southern China was bankrupt, and Northern China could do nothing while the chaotic political situation continued. Until the development was sufficient to demonstrate its reasonableness and usefulness to the entire Chinese farming population, the funds had to be raised and disbursed by private interests. The Association hesitated to take direct steps because of the possibility of an unfavorable reaction to American interference.[2]

It was suggested that the association carry out its project through the Christian colleges in China, which could be interested in the plans through a desire to improve social conditions. Such institutions could provide only a fraction of 1% of the silk worm eggs needed by the industry, but results from the colleges' experimental work seemed assured. Hence, it was decided to cooperate with the various colleges of the country. Buildings were constructed at the Canton Christian College and at the University of Nanking; sums of money were given to these and to other col-

[1] Exports of Raw Silk Compiled by the Statistical Bureau of the Silk Association of America

Year	Japan*		Shanghai†			Canton‡	
	United States	Europe	United States	Europe	Asia and Africa	United States	Europe
1922	313,733	31,818	26,160	33,065	15,415	45,711	19,169
1921	247,204	14,061	34,471	21,113	17,579	48,057	13,509
1920	145,301	26,662	18,035	21,283	15,412	25,181	14,311
1919	274,635	9,766	46,371	29,717	18,915	34,626	22,415
1918	203,555	32,267	26,021	36,622	12,585	15,451	24,338
1917	219,574	35,506	32,099	32,304	15,580	23,568	28,329
1916	181,724	37,023	35,232	27,540	16,584	19,128	26,678
1915	147,677	32,223	40,326	41,216	19,295	26,645	13,144
1914	141,941	28,740	20,046	25,407	27,246	18,560	22,137
1913	135,541	65,936	29,782	47,674	7,652	18,272	48,654

* Shipping bales.
† Picul bales (133 1/3 pounds).
‡ Catty bales (106 2/3 pounds).

[2] See Howard and Buswell, *A Survey of the Silk Industry of South China*, Ling Nan Agricultural College, Canton, Bulletin No. 12, 1925.

leges. From several of these, groups were sent out to instruct the growers in the remoter regions in the proper methods of breeding and rearing silk worms. The Christian colleges attempted to instruct the Chinese in the modern scientific methods which had been developed in Europe and in Japan.

Egg sheets prepared by the colleges were sold in the native markets by college agents. Although the price was $5 Mexican,[3] as compared with $1 and $1.50 charged by the native producers, the farmers learned that the price of egg sheets sold by the colleges was not excessive, since every egg on the sheet hatched into a strong worm, whereas it was necessary to buy three or four sheets from the natives in order to secure the same number. Cocoons from the inspected eggs, furthermore, brought two or three times the ordinary price.

Mechanical testing of imported Chinese raw silk had been made in the United States by the United States Testing Company, Inc. The rejected silk, which had no market, was a resultant economic loss. It was suggested, therefore, that the Silk Association of America established a testing house in China to inspect outgoing shipments.

American manufacturers had been represented in China by Swiss, Italian, and French buying agents. When it was suggested to them that testing and standardization be attempted, they were unanimous in the opinion that it was impossible because the Chinese resented interference with their centuries-old methods. It was, however, to the advantage of the Chinese growers that their markets in the United States be increased; that could be done only when the raw silk met the requirements of the American manufacturer.

One of the functions of the representative who visited China in 1917 and of the 1920 mission was to aid in deciding this question. Testing was imperative, but the Silk Association of America did not want to incur the displeasure of the Chinese which might result from the contacts with a testing house. When a consignment was rejected, the producer directed his resentment against the agency of the rejection.

The devices for mechanical testing had been improved so that

[3] This was the price in silver. The Mexican dollar, with a value of approximately one-half that of a United States gold dollar, was the unit to which reference was made.

quality testing by this means was recognized as a practical method of preventing the frequent mistakes of visual and tactile inspection. The standard tests for raw silk which were recommended, namely, the winding test, the sizing test, and the American sizing test, were in conformity with the established practice. The use of "tentative standard tests" was recommended, because although they were in a state of development, they were advanced sufficiently to represent the most satisfactory laboratory practice. They did not affect sales contracts under the rules of the association. The "tentative classification" proposed four grades of silk which were sufficient to meet the needs of American manufacturers. If a testing house were to be established, it would be necessary that standards be adopted as a common basis of understanding for the buyer and seller.

A testing house was opened in Shanghai in 1921 as a branch of the United States Testing Company, Inc., an organization separate from the Silk Association of America. In this way the Association was able to appear in the background, and none of the potential displeasure was likely to be directed against it.

The second American Silk Mission, whose chairman was the president of the Silk Association of America, visited China in March and April, 1923. In Canton, where reeling of the standard American silk skein had been introduced, it was possible for an unscrupulous producer to change chop tickets of an inferior lot which had been rejected by one exporter and deliver it again under another name to a shipper whose inspection was not so severe; substitution of this kind took place until the lot was accepted. A chop ticket was a brand which was inserted in each skein. In order to prevent substitution, the mission recommended that small chop tickets similar to those used by the Italian filatures be inserted in each skein. This was recommended also by the Silk Association of America in June, 1923, as a result of the report of the Committee. These small chop tickets already were placed in all the silk shipped to Lyons and England. The plan was approved by the majority of the exporters.

When the work of the Shanghai Testing House was inspected, it was discovered that both the exporters and the Chinese had misunderstood the functions of the testing house; both groups thought that it had been established to classify silk. The Chinese stated their willingness to use the testing house, if the tests were

accepted as final. It was explained to them that such procedure was not customary in any part of the world, that neither Milan, Yokohama, nor Lyons tests were final, and that no group of buyers would accept such a provision. The mission was satisfied with the progress of the testing house. A group of 36 Chinese were being instructed at the testing house and would return to their filatures with definite knowledge of American requirements and with a more scientific attitude. It was planned to admit other students when the course would be completed, and to continue the instruction indefinitely.

23. Associated Importing Corporation

AN ARRANGEMENT BY CONSUMERS FOR DIRECT PURCHASES OF RAW MATERIALS FROM FOREIGN PRODUCERS

The proprietor of the Wightman Company, an import broker of raw materials such as rubber, camphor, sisal, and cotton, believed that the waste involved in several commissions and speculative profits on the importation into the United States of raw materials could be eliminated. Raw materials rather than finished articles were speculated in, since neither the production of most raw materials nor the purchase of them by the consumer was constant through the year. Finished products changed in price less frequently and did not provide such a good basis for speculation.

Since both consumers and producers disliked the frequent changes in price which they had to pay or to receive for their raw materials, the Wightman Company, in an attempt to overcome this difficulty, in the fall of 1923 called a conference of representatives of foreign producers of raw materials and American manufacturers and consumers to consider the possibility of organizing the Associated Importing Corporation. Included in this conference were representatives of an association of camphor refiners in China and of rubber producers in the Dutch East Indies with which the Wightman Company had had previous dealings and whose officials were known personally. They had shown an interest in the plan previous to the conference. These associations controlled about 50% of the camphor and 20% of the rubber production in their respective localities.

It was planned that the corporation would supply a buying

service on all classes of raw materials for those manufacturers who did not purchase directly from foreign producers. The corporation was to be the service agency through which consumers and producers were to be brought together. The Associated Importing Corporation was to secure, through personal solicitation, a group of consumers who would make contracts directly with producers for the purchase of their imported raw materials in a definite quantity, grade, and price for a period of 3 to 12 months or longer.

The Associated Importing Corporation planned to negotiate with both associations of producers or their representatives and individual producers of raw materials. If it had orders from consumers for a larger quantity of raw material than could be supplied by the producers who were marketing through the Associated Importing Corporation, it would use these specific orders to secure the interest of more producers in its plan. Similarly, if producers of any raw materials desired to secure through the Associated Importing Corporation customers who might contract for their entire output, the Associated Importing Corporation would use this request to solicit the cooperation of new consumers in its plan. Camphor and sisal were used in the United States mostly by four or five large manufacturers who did not maintain their own foreign buying organizations. Rubber and the other raw materials which the Associated Importing Company would deal in were purchased by many manufacturers.

Contracts were to be made at the beginning of each year. The prices agreed upon by the parties to the contract were to be made in any one of three ways: (1) At a price determined each month of the period of the contract by the average price of the month preceding delivery (see Contract A, page 293, Part 3, paragraph 1); (2) at a fixed price for the entire period (see Contract B, page 295, paragraph 3); (3) at a cost price to be agreed upon plus a reasonable profit to the producer.

The first method eliminated the possibility of consumers or producers purchasing or selling during the entire period of the contract at a loss, and overcame daily and weekly price speculations. The second method could be used in the purchase of products, the prices of which could be estimated with some certainty in advance. The third method of price setting would assure the producer of fair profit and prevent speculative losses to the con-

sumer; its use would depend upon the mutual confidence of the parties concerned. The proprietor of the Wightman Company believed that the last method was the most suitable but that it could be used only when producers were induced to accept a steady profit instead of a speculative profit.

The Associated Importing Corporation would guarantee the consumer that no shipments would be transferred to other purchasers. The consumer would guarantee the Associated Importing Corporation and the producer that he would use in his own plant all the raw materials sold to him on this basis. If the manufacturer did not have an immediate need for the purchase or any part thereof, it was to be resold by the corporation for a service charge plus the actual expense incurred in selling it. Any loss in reselling the material was to be borne by the original purchaser. This was to protect the producer against speculative operations in connection with the legitimate manufacturing needs of the consumer. In case of failure to make delivery on a contract by the producer, the corporation was obligated to provide the consumer with his required supply from other sources at the best price obtainable. In case of a dispute over the quality or price of any article, the Associated Importing Corporation would act on behalf of the consumer and take the necessary steps to protect his interests. Both consumers and producers were obligated morally to abide by the contract. The arbitration board of the rubber association would act on disputes arising between importers and producers of rubber.

The Associated Importing Corporation would derive its income from commissions paid by the producer. These commissions would vary from 1% to 5%, depending upon the type of product, the length of time, and the expenditure of effort required to obtain the contracts. The consumer would pay the producer the invoice price, including cost, insurance, and freight. Customs duties and trucking expenses would be paid by the Associated Importing Corporation and charged to the consumer.

It was expected that the consumers and producers who transacted business through the Associated Importing Corporation would not experience the risks of speculation in their purchases and sales. A steady outlet for his products, furthermore, would be guaranteed to the producer and a steady supply of them to the consumer. The proprietor of the Wightman Company believed

that the producer would be satisfied even if the market quotations on his product became higher than the contract price, because the producer would be assured of a steady profit. On the other hand, consumers probably would be satisfied when the market price declined below the contract sale price because they were assured of a definite supply, and could arrange the contract so that an adjustment in prices each month of its duration was possible.

Low operating costs should result from dealing with the Associated Importing Corporation because of the large quantity of shipments. The Associated Importing Corporation might secure a lower price for the consumer because of the number of contracts it could obtain for the producer. Shipments could be combined, moreover, to secure lower freight rates. Consequently, it was better for consumers and producers interested in direct purchase to make arrangements through this corporation.

A sufficient number of contracts for the purchase of rubber and camphor could be secured to warrant the organization of the proposed corporation. Enough consumers expressed their willingness to enter into contracts with a group of rubber producers in the Dutch East Indies to take their total supply of 1,500 tons per month. Contracts could be secured from consumers to take the available production of 25,000 pounds of camphor per month from a group of refiners in China.

There was no immediate prospect for the establishment of direct relations with producers of other raw materials. Egyptian cotton and Yucatan sisal producers might be induced to join the Associated Importing Corporation, but an appreciable outlay of capital would be necessary in their case because those crops were controlled by merchants who financed the producers at the beginning of each season. Producers of sisal and Egyptian cotton who were not financed by outside interests controlled a negligible quantity of the world's supply. Previous personal communications of the proprietor of the Wightman Company with associations of camphor refiners in China and of rubber growers in the Dutch East Indies had induced them to support the proposed company. This personal association and acquaintance with the producers and consumers was necessary before satisfactory cooperation in the plan of the Associated Importing Corporation could be secured.

There appeared to be no inducement in this plan to make the consumers renew contracts, if they found at the expiration of a contract that the net amount paid for their raw materials was larger than it would have been had they not entered into a purchase contract.

Although the proprietor of the Wightman Company realized the difficulties of securing renewed contracts and the obstacles to be overcome in enlisting the cooperation of the producers of other raw materials, he believed that this method of purchase was sound and would arouse the interest of more consumers each year after it had been tested. The Associated Importing Corporation, therefore, was organized in the spring of 1924.

CONTRACT A

CONTRACT ON AVERAGE MONTHLY PRICE

SPECIAL THIN SMOKED SHEET RUBBER

Between

Seller:	*Buyer:*
Messrs. Blank & Company, Ltd.	John Jones & Company
London, England	Akron, Ohio

PART 1
QUALITY

1. The seller agrees to sell the output of one or part of one of his plantations to be used for making Special Thin Smoked Sheet Rubber.[1]
2. Sheets to be calendered to uniform thickness of one thirty-second (1/32) of an inch.
3. Sheets to be smoked, as per sample attached, and thoroughly dried before packing.
4. A representative sample, sealed and signed by both parties to be in the possession of the undersigned representatives.

PART 2
QUANTITY

1. For the first period of one year, beginning with the month in which the first shipment is made, not less than one hundred and twenty (120) tons (2240 lbs. to the ton).
2. Letter of credit to be opened by the buyer, in about thirty (30) or forty (40) tons additional for the first period of one year.

[1] This arrangement would assure the consumer of a uniform rubber compound and would avoid the necessity of changing their formulas to conform to the different coagulants which may be used if the rubber is supplied by various estates.

PART 3
PRICE

1. Each monthly shipment portion to be based on the average monthly price of Standard Ribbed Smoked Sheets, as ascertained by the Rubber Trade Association of London, for the month preceding shipment.
2. A reasonable commission to be added to the above price. (Say, two and one-half (2½) pence per pound paid by the producer to the Associated Importing Company.)

PART 4
TERMS

1. Cost and freight to New York.
2. Letter of credit to be opened by the buyer, in favor of the shipper, to be available the first day of the shipment month.
3. Drafts to be drawn at ninety (90) days sight and accompanied by complete documents, that is, bills of lading, consular invoices, commercial invoices, and weight returns.

PART 5
INSURANCE

1. Insurance to be effected by buyer.

PART 6
SHIPMENTS

1. Equal monthly portions of ten tons (10) each during the first period of one year.
2. Any increase in the total yearly tonnage to be shipped in equal monthly portions during the remainder of the contract period.
3. Shipper to notify buyer steamer's name as soon as shipment has been made.
4. First shipment to be made as soon as possible after contract has been accepted by both parties.

PART 7
PACKING

1. Each sheet to be the same size as the case, that is, about two (2) feet wide and three (3) feet long.
2. Each individual sheet to be laid evenly on top of another.
3. Sheets are not to be lapped on the edges or turned from one layer to the next. (This is necessary for the manufacturer's purpose, as he washes each sheet separately and, therefore, it must be possible to strip off one sheet at a time.)
4. Each sheet to be dusted with a light coating of talc to prevent massing.
5. Cases to be packed about 200 (two-hundred) pounds net.

6. Cases to be made of sound wood, of sufficient strength to properly carry contents, banded with metal at both ends and across the middle.

PART 8
MARKING

1. A I C New York.
2. The cases for each monthly shipment portion should be numbered, commencing with number one each month.
3. In accordance with the United States Customs regulations, each case is to be marked with the name of the country of origin below the original shippers' marks.

PART 9
WEIGHTS

1. Shipping weights and tares.
2. Weight list, showing number and weight of each individual case.
3. Gross, tare, and net weight to be marked on each case.

PART 10
SHRINKAGE

1. Seller to guarantee shrinkage of one (1) per cent.
2. Any excess of one (1) per cent to be credited to the buyer.
3. Buyer to furnish seller with certified weigh master's return in the event of shrinkage claim.

PART 11
ARBITRATION

1. All arbitration on quality to be settled by London Arbitration.
2. Seller to appoint arbitrator to act in his behalf and draw sealed samples for submission to arbitration.

PART 12
OPTION

1. Renewal of this contract for an additional period of one (1) year to be at the option of the buyer.
2. Buyer required to inform the seller of such intention by letter via registered mail not later than one (1) month, prior to the expiration of this contract.

Respectfully submitted,
Yours faithfully,
ASSOCIATED IMPORTING CORPORATION

ACCEPTED BY ....
President

ACCEPTED BY

....
Seller *Buyer*

CONTRACT B

CONTRACT ON FIXED PRICE

ASSOCIATED IMPORTING CORPORATION

CONTRACT
No...............
Messrs. Black Rubber Estates,
Dutch East Indies

DEAR SIRS:

We confirm having *sold* for your account the following:

QUALITY: About six hundred (600) tons (2240 lbs. to the ton) Shipping weights.

QUALITY: Standard Ribbed Smoked Sheet, Hevea Braziliensis Plantation Rubber.

PRICE: Twenty-eight and one-half (28½) cents per lb. c.i.f. New York.

TERMS: Irrevocable Confirmed Bankers Letter of Credit, drafts to be drawn at ninety (90) days' sight on New York.

POSITION: For shipment from the Far East to New York in equal quantities of two hundred (200) tons monthly during the months of October/November/December, 1923.

SHRINKAGE: In excess of one per cent (1%) for seller's account.

BUYERS: John White & Company
Cleveland, Ohio
U. S. A.

COMMISSION: One (1) per cent.

This contract is made subject to the rules and regulations of the Rubber Trade Association of New York, Inc., said rules and regulations are made part hereof the same as if herein set forth in full.

All claims and controversies arising under or in relation to this contract shall be determined by arbitration conducted under the By-laws, Rules, and Regulations of the Rubber Trade Association of New York, Inc.

ASSOCIATED IMPORTING CORPORATION does not assume any responsibility under this contract.

Accepted Faithfully yours,

JOHN WHITE & COMPANY ASSOCIATED IMPORTING CORPORATION
By.................. *By*..............................

XI

PLACING IMPORT ORDERS

A. TIME, SIZE, AND SOURCE OF PURCHASES

1. Hood Rubber Company

POLICY OF RUBBER BUYING DURING PERIOD OF CONTROL OF PRODUCTION BY PRODUCERS

The Hood Rubber Company, with a plant near Boston, manufactured rubber products of various kinds, including tires, tubes, footwear and specialties, for which its requirements of crude rubber during 1924 approximated 10,000 tons. The company used principally the grade of rubber known as "ribbed smoked sheets," which it bought in various markets, principally Singapore, London, Colombo, Batavia, and Antwerp. The point at which rubber was bought depended on ruling prices, but the bulk of the company's rubber was bought in Singapore, where crude plantation rubber was sold weekly at auction and also privately to merchants and others.

The company bought in Singapore through a local firm of merchants who cabled daily quotations on stocks on hand or available. This firm also attended to the details of checking quantities and qualities and of arranging for shipment of the rubber to the United States. Originally the firm charged a definite commission for its services, but recently this practice had been abandoned and service charges were included in the quotations. The company bought against the quotations received after checking with prices prevailing at the other rubber markets.

For a number of years prior to September, 1925, the company had followed a conservative policy of buying rubber, purchasing cautiously on a rising market and heavily on a falling market. With the continued operation of the so-called Stevenson plan, however, and with other changes in the rubber industry, the company considered whether or not this policy should be followed on future purchases.

The Stevenson plan for the regulation of rubber output became effective on November 1, 1922, following a report to Parliament by a select committee headed by Sir James Stevenson. Only rubber production in British possessions was affected. The plan was sponsored by the British Government, and although an attempt was made to secure the support of the planters in the Dutch East Indies, such support was not forthcoming. In 1920, however, 70% of the world's rubber was produced in British Malaya and in Ceylon so that the effect of any restriction on output in that quarter was bound to have a marked effect on crude rubber prices.

The Stevenson plan adopted as "standard production" the actual output of each producer between November 1, 1919, and October 31, 1920. It provided for an output during 1923 amounting only to 60% of standard production by imposing export taxes ranging from 4*d* to 1*s* a pound on producers who shipped in excess of the 60% allowance. The professed object of the plan was to procure for crude rubber, taking ribbed smoked sheets as standard, a minimum price of 1*s*/3*d* and a maximum of 1*s*/6*d*. In 1921, the actual cost of producing rubber was unofficially estimated at an average of 26 Singapore cents a pound, and Table 1 shows the official compilation of costs made up from returns of 221 producers in later years.

In order to control the price within the professed limits, the plan provided for the automatic increase of the exportable allowance by 5% should the price of rubber average between 1*s*/3*d*

TABLE 1

ALL-IN COSTS OF PLANTATION RUBBER*

Producers	1922—1923		1923—1924	
	Crop (tons)	All-in Cost† (pence)	Crop (tons)	All-in Cost (pence)
140 Malayan Companies....	37,622	8.68	33,720	9.68
33 Dutch East Indies Companies..............	11,257	9.22	10,890	9.13
28 Ceylon Companies.......	8,111	7.60	6,509	9.01
20 Plantation Companies Elsewhere............	4,116	9.07	5,042	8.46

* From report of Symington and Sinclair, London, March, 1925.
† Including everything except allowance for dividends and depreciation.

TABLE 2*

PERMITTED MONTHLY SHIPMENTS UNDER STEVENSON PLAN AT POSSIBLE VARYING PERCENTAGES

Percentage	Tons	Percentage	Tons
100	28,416	75	21,625
95	27,056	70	20,266
90	25,699	65	18,907
85	24,340	60	17,549
80	22,982	55	16,192

* From *India Rubber World*, September 1, 1925.

and 1*s*/6*d* a pound during a three-month period. Should the price average 1*s*/6*d* or above, it was provided that the allowance should be increased similarly by 10% during the ensuing quarter. In accordance with this provision the exportable allowance was increased to 65% of standard production on May 1, 1925, and to 75% on August 1, 1925. In addition to this increase, the British Government authorized during 1925 a special overall allowance of 1,250 tons monthly, which was to supplement the automatic increases permitted under the plan. Including this special allowance, Table 2 shows in tons the quantities permitted to be exported from British Malaya and Ceylon at varying percentages.

It is interesting to compare, with Table 2, Table 3, which shows the estimated world requirements for 1925 and the estimated shipments. It will be noted that with the Stevenson plan in effect, British Malaya and Ceylon can supply only 50% of the total shipments, leaving a deficit of 38,000 tons to be met from existing stocks. This compares conservatively with the actual situation in 1924 when world consumption of crude rubber reached a total of 475,000 tons against a production of 415,000 tons. Stocks in London were reduced by 31,000 tons and in the United States by 19,000 tons to make up the resulting deficit.[1]

At the time that the Stevenson plan became effective on November 1, 1922, ribbed smoked sheets were selling for about 8*d* a pound. With the adoption of the plan, the price began to rise steadily. Table 4 shows the average New York prices over quarterly periods and Figure 1, on page 300, gives a graphic representation showing the course of prices during 1924 and for the first eight months of 1925.

[1] From *India Rubber World*, June 1, 1925.

TABLE 3

ESTIMATES FOR 1925*

SHIPMENTS	Tons Total	Tons per Month
British Malaya and Ceylon (maximum allowed)	233,688	19,474
Dutch East Indies	175,000	14,583
Other plantations	27,000	2,250
Brazil	23,000	1,917
Wild	6,000	500
Deficit	38,812	
	503,500	38,724
REQUIREMENTS		
United States of America	350,000	29,167
United Kingdom	25,000	2,085
France	37,000	3,083
Germany	29,000	2,417
Italy	9,500	791
Canada	15,000	1,250
Japan	20,000	1,667
Rest	18,000	1,500
	503,500	41,958

* From *India Rubber World*, September 1, 1925.

Undoubtedly, the Stevenson plan was largely responsible for such price fluctuations. When the plan was initiated, estimates of world consumption up to 1930 could not have been adequate. At that time, there was no indication of the trend toward balloon tires which caused a largely increased use of rubber for tire purposes, nor was there any expectation that tire production, as a whole, would expand as it had. Table 5 shows over a three-year period in one column the total crude rubber consumed in the United States, and in the next column the quantity of crude rubber used during the same years in tire production. It is significant that the percentage of rubber consumed in tire production, was increasing.

As illustrating the rapidly growing use of crude rubber, it is

TABLE 4

AVERAGE NEW YORK PRICES FOR RIBBED SMOKED SHEET*

Year	Jan.-Mar. (cents)	Apr.-June (cents)	July-Sept. (cents)	Oct.-Dec. (cents)
1922	16	15½	14⅙	17⅚
1923	34⅙	29½	28	26⅞
1924	24½	20½	24¾	34½

* From *India Rubber World*, July 1, 1925.

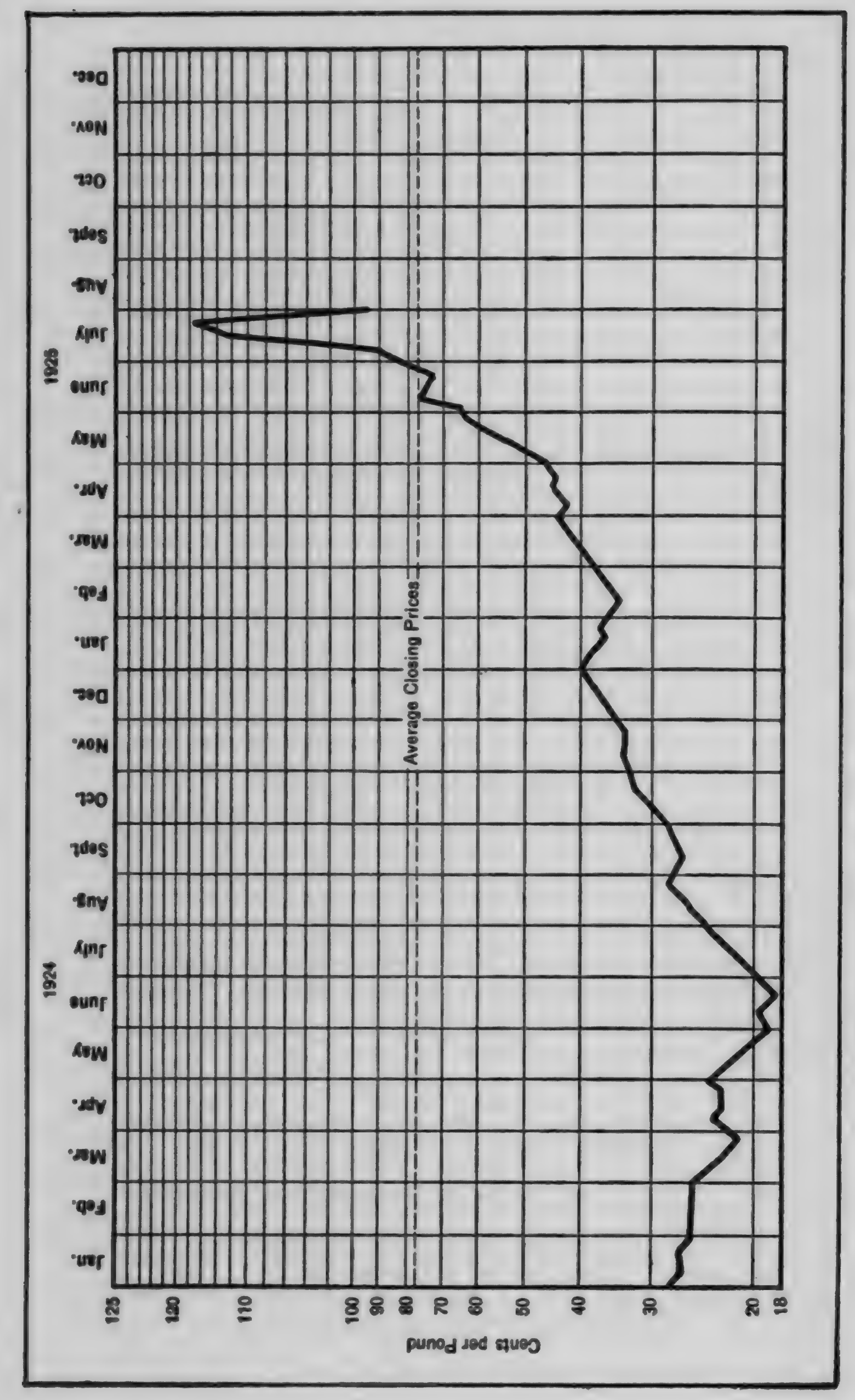

Figure 1: Course of crude rubber prices during 1924 and 1925.

TABLE 5

CRUDE RUBBER USED IN UNITED STATES OF AMERICA* / CRUDE RUBBER USED IN TIRE PRODUCTION†

Year	Tons	Pounds
1922	254,183	523,526,220
1923	274,956	545,135,360
1924	301,778	625,348,000

* From *India Rubber World*, August 1, 1925.
† *Ibid.*, June 1, 1925.

interesting to note that, although the total imports of crude rubber into the United States during the first 3 months of 1924 were 166,103,501 pounds, during the corresponding period of 1925, 203,188,394 pounds were imported.[2]

Rubber manufacturers as a whole did not favor the Stevenson plan. Many of them felt that the plan was an unwarranted interference with the natural laws of supply and demand and that its operation was not conducted in accordance with its professed purpose. Such manufacturers pointed out that the world's requirements had expanded so rapidly that it was impossible to keep prices at a reasonable level under the provisions of the plan, and in justification of their claims they mentioned the price on September 1, 1925, of ribbed smoked sheets which was 80 cents a pound for December arrival, and consequently about 45 cents in excess of the maximum price professed to be desired by the originators of the plan. It was also contended that with the plan in operation, it would be impossible to meet world requirements for crude rubber. On the other hand, supporters of the plan maintained that it was essential for the protection of the rubber industry and that the tremendous increase in prices was due quite as much to speculation and to erratic buying as to the operation of the plan itself.[3]

[2] *India Rubber World*, August 1, 1925.

[3] REGARDING RUBBER RESTRICTIONS

One of the effects of the recent rapid rise in the price of rubber has been the arousing of keener interest than ever, not only among the leaders of the rubber industry, but among students of economics the world over, in the past, present, and prospective operations of the Stevenson Restriction Act. When it took effect on November 1, 1922, the measure had for many a mere academic concern. Others looked at it askance as a resource of doubtful expediency that might even prove a boomerang to the planting interests, then discouraged with sagging prices and mounting stocks. Others openly opposed it as a "vicious combination in restraint of trade"; but a great many manufacturers nevertheless viewed it indulgently. The general sentiment expressed was that inasmuch as all other

Whatever was the correct view of the merits or defects of the Stevenson plan, the net result of all factors was a situation of extreme uncertainty in September, 1925. Consumption during 1924 had exceeded production by 50,000 tons with every indication that this discrepancy would be increased during 1925. Prices had skyrocketed during July, 1925, and even in September were at a level of about 80 cents a pound, with the future trend a matter of grave doubt. Table 6 shows the estimated figures on production and consumption for the ensuing five years. These figures were prepared in the light of all available data and were regarded as authoritative, subject to a possible variation of 10%.

Assuming that all estates were free to produce to capacity, their potential output eventually would add materially to the total production. Even under such conditions, however, it was doubtful whether there would be much alteration in the actual figures during the years named, because of the difficulty of securing an adequate labor supply. In British Malaya, for example, virtually

means for the relief of the growers having failed, it would be only fair to give the new plan a fair trial; and that, after all, planters of rubber were as much entitled to fair returns and security of investment as manufacturers.

Defenders of restriction contend that the act has quite justified its existence and that it has benefited consumers as well as producers by preventing demoralization of the crude market. Answering the charge of unfair repression, they claim that had any fairly profitable outlet been provided, fully 250,000 tons more of rubber would have been exported during the 2½ years intervening since the act became operative. A strained condition in the market has at least been eased during that period by the marketing of 150,000 tons of surplus stocks.

The primary purpose of the proponents of the act was not to secure an extravagant price, but simply to assure to rubber growers the "economic minimum" of *1s/3d* a pound. Even this figure, they say, had not been averaged daily during 2¼ years of restriction; and that if latterly it has been considerably exceeded, it has been because the biggest buyers, who could, by steady purchasing, have secured at moderate rates ample rubber through progressive releases, have elected to let prices drift and to purchase only from hand to mouth; in fact, played into the hands of speculators who were more alert than they to see an advantage. Hence the execration of the Stevenson Act and the hue and cry about British monopoly.

That is how restrictionists view the situation. But American buyers particularly cannot see why they should be reproved for not cooperating with restrictionists. It is hard to convince them that it was incumbent on them to foster the rubber planting industry when it found it hard to sustain itself, any more than it would be obligatory on them to insure growers of cotton a minimum price. They ask why guarantee *1s/3d* when well-managed estates report producing cost even less than *8d* a pound. Nor are they comforted with semiofficial assurance that six months hence, if the average be kept over *1s/6d*, the export allowance will be raised to 95% of the standard, with the possibility of the export bars being soon afterward let down completely. Most buyers consider restriction neither flexible enough nor sound economically, and that, besides imposing unwarranted hardship on them, it is inimical to the best interests of the whole rubber industry. (*India Rubber World*, July 1, 1925.)

TABLE 6

FUTURE POTENTIAL WORLD PRODUCTION AND CONSUMPTION*

Year	Estimated World Production (tons)	Estimated World Consumption (tons)
1924	531,000	505,000
1925	574,000	540,000
1926	606,000	575,000
1927	623,000	608,000
1928	633,000	641,000
1929	637,000	672,000
1930	641,000	703,000

* From figures prepared by R. B. Prescott for Rubber Association of America.

all plantations were worked by Tamil labor imported under contract from southern India. Under such conditions, a number of professed experts predicted freely that crude rubber would reach $3 or $4 a pound by 1928.

Under these circumstances, the Hood Rubber Company could continue its former buying policy, could buy heavily in anticipation of a rise in price, or could curtail its purchases in the expectation of further price decreases. In September, 1925, the company was buying for no more than five months ahead. Admittedly by buying heavily in 1924 when price was rising, the company could have effected considerable savings in view of the heavy increases in price in 1925. On the other hand, the skyrocket period of 1925 was short-lived (see Figure 1) and adhering to its policy of cautious buying on a rising market the company had not been unfavorably affected at that time. The company believed that consumption was likely to increase heavily during the next few years. On the other hand, in view of figures on crude rubber consumption, the company was sure that consumption was bound up intimately with the question of automobile production and on that point the company felt that it was impossible to make any accurate prediction. Sales in the automobile industry were increasing through 1925, but the company felt that a limit to absorption of automobiles might be reached with a consequent check to production which would have corresponding effects on the use of crude rubber. Moreover, the company was of the opinion that with prices at existing levels, the exportable allowance under the Stevenson plan would be automatically increased and would reach 95% on January 1, 1926. Although potential production was a

doubtful question, the company was inclined to think that in any event, production unhampered by restriction would be sufficient to keep prices from mounting for some time to come to the extreme levels of $3 and $4 a pound predicted.

Representations also were being made continually to the British Government by opponents of restriction and there was always the possibility that it might remove restriction altogether.

The direct connection of the company with the Singapore market insured its ability at all times to secure rubber at the lowest possible prices. Frequently, also, when large quantities of rubber were turned into the Singapore market at one time, occasional lots were offered at figures somewhat below the general run of prices. The company was in a position to take advantage of all such opportunities. On the whole, therefore, the company felt that heavy buying during the latter part of 1925 would be speculative. Although it appreciated that a hand-to-mouth buying policy on the part of many of the large companies in 1923 and 1924 had given an opportunity for speculation that doubtless had contributed to the extreme rise in prices during 1925, it did not think that the future trend was sufficiently sure to warrant heavy commitments. The company accordingly decided to follow its policy of buying cautiously on a rising market and heavily on a falling market. By adhering to this policy, the company might not effect extreme savings in case of wide variations in price, but at least it was sure to get all its rubber at the best ruling prices and often at a shade better. Furthermore, the company considered that such a course involved no speculation.

2. Rochelle Bag Company

PURCHASING BURLAP FOR FUTURE SHIPMENT FROM CALCUTTA

The Rochelle Bag Company, of Baltimore, for over 20 years had manufactured burlap bags from burlap imported from India. It used annually about 4,000,000 yards of burlap. The bags were sold for use in bagging grain, poultry feed, fertilizers, sugar, potatoes, and similar commodities. The manufacture of bags was a simple, unskilled process consisting of cutting, sewing, and stamping the burlap.

Burlap was a cheap, bulky product imported from Calcutta in bales of about 2,000 yards each. The standard width of the cloth was 40 inches and it was quoted as 7½-, 8-, 10-, and 10½-ounce burlap according to the weight of a running yard. It could also be ordered in special widths of 36 inches, 45 inches, and 48 inches. In June, 1924, the company had 1,000,000 yards, or a three months' supply, of burlap on hand. It was necessary to place orders then for September arrival from Calcutta or the company could wait and buy its needs on the spot market in September. If it purchased in Calcutta, the company could limit its order to the September requirements of 350,000 yards or it could purchase enough for several months in hope of speculative gain.

There were two sources from which importers in America could purchase burlap. Dundee, Scotland, manufactured fine grades of burlap from Indian jute. The Rochelle Bag Company did not use the grades manufactured in Dundee. Other grades of burlap were imported into the United States directly from Calcutta. About 80% to 90% of the imports of jute and jute products entered the United States as burlap. They found a variety of uses in addition to bagging, such as upholstering, packing, wall covering, and in the manufacture of linoleums. A small quantity of raw jute was imported into the United States for manufacture into twines and coarse cotton bale wrappings which did not compete with burlap.

Purchases of Indian burlap could be made directly from Calcutta Mills, or in New York through New York merchants or brokers, or through New York representatives of Indian Mills. General importers often acted as merchants of burlap. Because of the variety of uses of burlap and the number and variety of dealers in burlap, a daily spot market existed in New York. A future market also existed to the extent that purchases could be made in Calcutta for future shipment and it also was possible to purchase burlap afloat for arrival on specific ships.

Quotations were made in New York for shipment from Calcutta either c.&f., c.i.f., f.a.s. Calcutta, or f.o.b. Calcutta, in terms of rupees, sterling, or American dollars. Spot quotations in New York were ex-warehouse, duty paid. The duty on burlap was 1 cent per pound. The raw material burlap fluctuated widely in price. Price ranges from a low of 4 cents a yard in February to

a high of 8 1/5 cents a yard in June, such as occurred in 1922, were not uncommon.

The Rochelle Bag Company purchased Calcutta burlap from whatever source offered the cheapest quotations. It purchased either on sterling or on American dollar quotations. Orders placed in sterling were covered immediately by purchases of future sterling exchange. Rupee quotations were not accepted because the future market in rupees was not well established and the company wished to avoid exchange risk as far as possible.

The company preferred, when purchasing directly from Calcutta, to accept c.&f. quotations since it carried blanket insurance with an American insurance company which it believed gave more adequate protection than the insurance under c.i.f. terms. The company received frequent quotations on spot and Calcutta future shipments from New York dealers and representatives of Indian mills. Sterling quotations could be compared with dollar quotations by converting at the current rate of exchange and adding the usual charges for insurance, interest, and duty.

Large importers of burlap, who purchased annually from 50,000,000 to 100,000,000 yards, sometimes maintained resident buyers in India or sent buyers to Calcutta. Some dealt directly with export houses or mill representatives in Calcutta. They frequently purchased on open account. Calcutta brokers' standard commissions of 1% often were reduced by ¼% to ½% for large purchases. Small purchasers of burlap who used 1,000,000 yards or less annually ordinarily bought from merchants or brokers on the spot market. In this way they avoided exchange risk and all shipping and importing details.

The Rochelle Bag Company had followed a policy of speculative purchasing of burlap. When it believed that spot prices would increase, it purchased for future delivery from Calcutta. If it believed that spot prices would decrease, it waited to purchase on the spot market its demands for current manufacturing requirements. The company believed that this method of purchasing was more profitable and involved less risk than in purchasing either entirely on the spot market in America or entirely for future delivery from Calcutta.

Market prices on the sale of bags were based on current replacement costs and thus fluctuated widely. Price competition

was keen; it was domestic, however, since manufactured bags were imported only in small quantities. Since the company sold most of its bags for immediate delivery from stock, it carried about a two months' stock of bags to meet orders. So long as it met competitors' prices, the demand for its bags was fairly constant and could be estimated in advance. If purchases of burlap were made entirely on the spot market, fluctuations in price during the two or three months before the bags were sold from stock made it difficult to expect a definite profit on manufacturing. Risk could not be reduced, therefore, by confining purchases to the New York market. The Rochelle Bag Company had been successful in its policy of purchasing in both Calcutta and New York. The purchasing manager had found that by watching the market closely and studying the spread between Calcutta and New York quotations he had been able in the long run to purchase at lowest quotations.

The price quotation was the deciding factor in the selection of the medium through which to make purchases since qualities were standardized by an association of Indian mills. The mills in India were classified in groups *A*, *B*, *C*, and *D*, according to the quality of their product. It made no difference to the Rochelle Bag Company which mill in a group furnished the burlap. The quality of burlap was not affected materially by fluctuations in the quality of the raw jute furnished the mills.

The Rochelle Bag Company had not been able to determine any direct relations between prices of jute in India and prices of burlap. Imports of burlap into the United States correlated in cyclical movements with the American business cycle, but seemed to have no direct relations with prices of burlap in America.[1]

[1] From a statistical thesis by a student in the Harvard Business School, in 1924, a rough correlation was found between imports of burlap into the United States and the Harvard "B" curve with no prominent lead or lag. It also was found that the curve for meltings of raw sugar in three Atlantic ports led the curve for imports of burlap by about six months with good correlation. No satisfactory correlation of this index was found with burlap prices and none whatever with jute prices. A fairly well defined seasonal movement of imports was found and an index of normal seasonal variations was determined as follows:

Seasonal Variations of Imports of Burlap

January	101.9	July	95.4
February	92.8	August	100.0
March	121.1	September	95.2
April	103.8	October	90.0
May	112.8	November	88.0
June	105.3	December	93.7

Monthly shipments from Calcutta reported to America about the tenth of each month caused temporary speculative fluctuations in spot prices in New York.

The consumption of burlap in the United States as shown by the annual volume of imports had been increasing steadily. Imports of burlap from Calcutta had increased from 573,000,000 yards in 1911 to 1,012,000,000 yards in 1923.

Attempts sometimes were made by speculators to corner all burlap afloat. Since it took three months for shipments from Calcutta to reach New York, spot prices might rise to exorbitant heights and users of burlap who could not wait for new purchases from Calcutta would lose heavily. On the other hand, these attempts to corner the market sometimes caused an unusual drop in spot prices since burlap merchants often had large stocks in reserve which were placed on the market as soon as prices rose so that speculators with large shipments afloat and without capital to carry the stocks had to sell. This reduced prices abnormally and caused heavy losses to speculators. There was no trade association in the burlap trade and it was impossible to get reliable estimates of stocks on hand or figures on consumption of burlap. It also was impossible to estimate the quantity of reclaimed burlap bags which entered the trade when prices were high. The quantity was thought to be large because bags could be reclaimed and used several times. After burlap was serviceable no longer as bagging it could be used for packing.

For six months previous to June, 1924, the Rochelle Bag Company had been buying about 70% of its needs in New York, either on the spot market or afloat on ships to arrive in from two to three weeks. It had purchased no large stocks from the mills in advance of needs because the purchasing manager believed that Calcutta prices at that time were high in relation to spot prices.

The purchasing manager had plotted the New York quotations and Calcutta futures quotations in order to watch the spread between burlap prices in the two markets (see Figure 1, on page 309, and Table 1). By comparing the futures quotation at the time of purchase with the spot quotation three months later, he could determine the success of his purchasing policy. The spread between the two markets varied because of speculation and the time required for deliveries.

The monthly shipments from Calcutta for 1924 were smaller

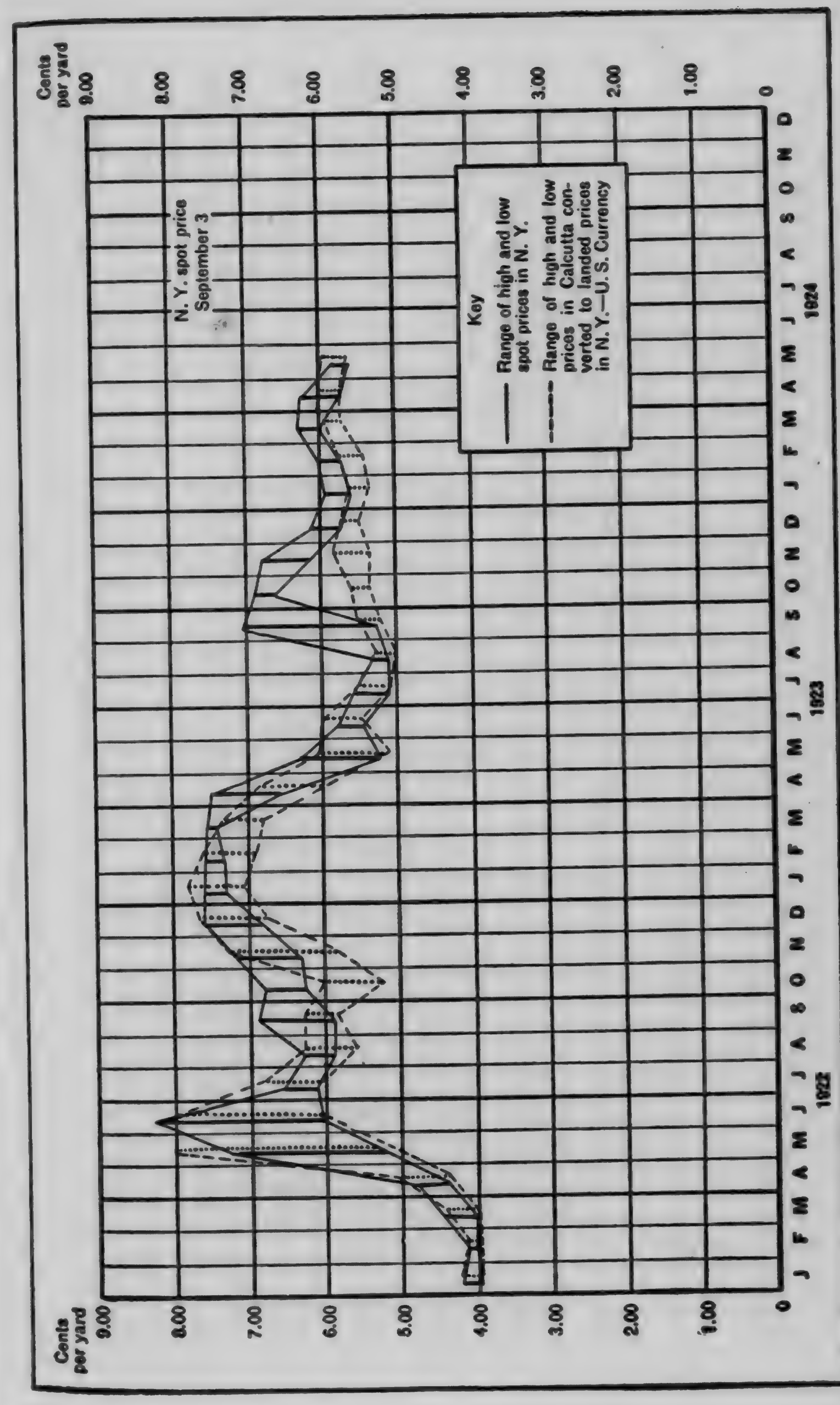

Figure 1: Burlap prices—New York spot *vs.* Calcutta futures (8-ounce, 40-inch burlap).

Table 1

Trend of Burlap Prices in New York and Calcutta

Quotations Received by Rochelle Bag Company in Cents per Yard

Month	1922				1923				1924			
	New York Spot Price		Calcutta* Futures		New York Spot Price		Calcutta Futures		New York Spot Price		Calcutta Futures	
	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High
Jan.	3.95	4.20	3.95	4.20	7.25	7.55	7.05	7.80	5.60	5.90	5.35	5.60
Feb.	4.00	4.10	3.95	4.10	7.25	7.50	6.85	7.60	5.70	6.00	5.40	5.70
Mar.	4.00	4.40	4.00	4.40	7.35	7.50	6.75	7.30	6.00	6.25	5.65	5.90
Apr.	4.35	4.75	4.35	4.95	6.50	7.40	5.95	6.85	5.70	6.20	5.70	6.00
May	5.05	7.20	5.10	8.00	5.20	6.30	5.10	6.05	5.60	5.80	5.60	5.90
June	6.00	8.20	6.00	8.00	5.45	5.75	5.50	6.00				
July	6.10	6.50	6.00	6.80	5.10	5.60	5.05	5.55				
Aug.	5.85	6.20	5.60	6.20	5.10	5.30	5.00	5.25				
Sept.	5.85	6.85	5.80	6.25	5.25	7.00	5.20	5.50				
Oct.	6.20	6.75	5.20	5.95	6.60	6.85	5.35	5.60				
Nov.	6.25	7.10	5.80	7.20	6.15	6.75	5.35	5.80				
Dec.	6.70	7.50	6.65	7.60	5.70	6.10	5.45	5.70				

* Calcutta quotations for delivery in New York three months later. Quotations converted to United States currency, landed in New York at current exchange quotations with usual charges for insurance, interest, and duty.

than in 1923, and the purchasing manager believed that stocks held in the United States were low with only 1,000,000 yards or about 3 months' stock on hand.

The manager had to place orders before June 15 for September delivery from Calcutta unless he chose to buy in the New York spot market. The market in the first two weeks of June was irregular and trade papers were predicting declines.[2] On June 14, 1924, the spot price in New York on 8-ounce, 40-inch burlap, ex-warehouse, was 5.75 cents a yard.

Sterling exchange was \$4.31⅜ and the company received a quotation from its bank for September future exchange at \$4.33½. Payment from Calcutta was on a 4 months' draft against a letter of credit. The bank's commission for a 4 months' letter of credit was ¾%. Since shipments arrived in from 2½ to 3 months, the company by buying from Calcutta received credit for a period of 30 to 45 days after arrival of goods. In buying on the spot market it was necessary to pay cash in 10 days. If the company prepaid its drafts before the end of 2 months, the bank's commission for a letter of credit was reduced to ⅜%.

June shipments from Calcutta for arrival in September, duty paid, c.i.f. were quoted at 5.80 cents a yard. The Rochelle Bag

[2] See page 311 for footnote.

Company received a quotation of 2.82*d* sterling a yard for June shipment from Calcutta, c.&f. New York.

The purchasing manager figured that the c.&f. sterling quotation of 2.82*d* amounted to 5.69 cents a yard landed in New York before September 15. This was 6 points cheaper than the current

[2] See page 310 for footnote reference.

Burlap Prices Quoted in "Daily Mill Stock Reporter"

Date 1924	8-oz. 40-inch New York Spot in Cents per Yard	8-oz. 40-inch C.i.f. Duty Paid Calcutta June Shipment in Cents per Yard	8-oz. 40-inch C.i.f. New York June Shipment from Calcutta in Pence	Sterling Exchange Rate
June 3	5.60	5.65	2.83	\$4.32
4	5.60	5.65	2.83	4.32⅛
5	5.65	5.70	2.85	4.31¼
6	5.65	5.70	2.87	4.31
7	5.65	5.75	2.90	4.31
10	5.80	5.80	2.95	4.30⅞
11	5.70	5.80	2.94	4.30¾
12	5.70	5.80	2.93	4.31⅛
13	5.70	5.80	2.93	4.31
14	5.75	5.80	2.92	4.31⅜
17	5.75	5.85	2.96	4.32¼
Sept. 3	7.25	7.35	3.56	4.48⅜

Babson's Report on Burlaps, June 2, 1924

"Irregularity is bound to prevail as a result of new jute crop reports. Burlap prices which are less than 33% over pre-war are relatively low as compared to the general commodity market. General business uncertainty, imports, and adequate supplies suggest following the market along pending developments through the early summer before making heavy commitments."

Quotations from "Daily Mill Stock Reporter"

June 3, 1924.

"From all indications, shipments of burlap from Calcutta to North America in May were small. . . . . It is believed that the total . . . did not exceed 70,000,000 yards."

June 7, 1924.

"The pronounced firmness of the Calcutta burlap market during the last month has been the subject of a great deal of discussion and much surprise in New York trade. A month ago sentiment in New York burlap circles was almost unanimous that primary burlap market prices were due for a decline, and this belief was reflected in the unusually limited buying by bag manufacturers."

June 10, 1924.

"A cable was received in one quarter of the New York trade yesterday reporting burlap shipments from Calcutta to North America in May as 92,000,000 yards. This estimate of last month's shipments was much of a surprise to local traders."

June 12, 1924.

"Recent cablegrams estimate May shipments of burlap from Calcutta to North America as 89,000,000 yards."

spot quotation and 11 points cheaper than the c.i.f. duty-paid quotation of 5.80 cents a yard for September arrival.

The purchasing manager's method of figuring is shown below:

Sterling Sept. future 4.33½ (dollars per pound) ÷ 240 (pence in 1 pound) × 100 (cents in 1 dollar) = ...1.8062, cost per pence in cents.
Cost of letter of credit.....................................¾%
Cost of insurance 1¼%
2 %

1.8062 plus 2% of 1.8062 = ...1.842, cost per pence in New York
1.842 × 2.82 (pence per yard) = ...5.19 cents per yard before duty
Duty 1 cent per pound = ... .50 cent per yard on 8-oz. burlap
5.19 plus .50 cents = ...5.69 cents per yard, landed in New York, duty paid

The other possibility open to the company was to wait and purchase burlap afloat any time between June and September for September delivery. Burlap often changed owners several times between Calcutta and New York when brokers speculated on merchandise which was en route to the United States. Since a profit was expected every time the burlap was sold, the company believed that the purchases afloat would cost more in the long run than purchases made in Calcutta. Fluctuations in the quotations on burlap afloat varied with spot quotations rather than with Calcutta quotations because the quantity of burlap afloat was definitely known while the quantity available at Calcutta had no definite limit.

Should the purchasing manager of the Rochelle Bag Company have purchased in Calcutta at the 2.82*d* a yard c.&f. quotation on June 14, 1924, or should he have waited either to purchase September requirements on the spot market in September, or to purchase afloat some time between June and September?

If the purchasing manager decided to purchase in June, should he have purchased only enough for September requirements or should he have made a large commitment in hope of speculative gain?

3. J. W. Armstrong Company

DETERMINING BUYING POLICY FOR TEA

The J. W. Armstrong Company was a large importer and packer of both tea and coffee, which it sold in packages under the brand name "Excellence." The firm had decided in pre-war years on a policy of carrying from 4 to 6 months' stock of tea on hand at all times. In the 10 years prior to 1923 it had procured 60% of its tea from India, Ceylon, and Java, most of the remainder from Japan and China, and small quantities from Formosa. The company paid about 42 cents a pound laid down in Boston for a good average Ceylon or India tea in March, 1925. This price was only 3 cents below the peak price of 1920. At the peak price, the freight rate had been 14 cents a pound, so that the price to the grower had been 31 cents. The price in March, 1923, netted the grower 37½ cents, inasmuch as the freight rate had dropped to 4½ cents a pound. The firm considered 42 cents a pound in 1923 too high, in spite of a strong tendency of the trade to believe otherwise.[1] It, therefore, had to

[1] The following review of the tea trade for 1922 and outlook for 1923, prepared by Max Tito, tea tester for the Salada Tea Company, appeared in *The Tea and Coffee Trade Journal*, February, 1923:

"At the commencement of 1922, we were faced with a very high market for all classes of tea due to reduced production in the primary markets of 1921. The reduction was voluntary, having been agreed to by the owners of tea gardens in India, Ceylon, Java, and minor countries, who feared disaster on account of the enormous supplies held in Great Britain. The figures still stood at the end of 1921 at 213,000,000 pounds.

"The year 1922 started, therefore, with a brighter prospect for the growers, but with a discomforting outlook for the importer and seller to the public, whose only hope for a reduction of prices lay in the enormous reserve held in Great Britain.

"As months passed, instead of the gardens producing far more tea, which could have been reasonably expected, due to very lucrative prices, climatic conditions in India, Ceylon, and Java upset all calculations. India was faced with unseasonable weather, which tended to decrease the plucking of tea, and mosquito blight partly destroyed the crops of many gardens.

"Unsettled affairs all over the world penetrated even to the remotest gardens in India. There were labor riots; dock strikes in Calcutta delayed shipping; the gardens found difficulty in securing enough coolies to pluck tea; and later political warfare broke out in Turkey, which affected many near-by Eastern districts and was the cause of general unrest.

"Now that we have reached the end of the producing season in India, and the production figures are approximately known, it is found that the increase over 1921 was indeed very small. The production in 1921 was 75,000,000 pounds short of 1920, and the 1922 total is placed at 290,000,000 pounds.

"The prices received by the planters in December, 1921, compared with December, 1922, show the following startling range in the commonest grades:

	1921 (cents)	1922 (cents)
Plain common pekoe souchong	22	32
Clean common pekoe	22½	33
Plain common broken pekoe	23½	34

"Finer grades showed even more decided advances, fluctuations varying between 10 and 15 cents a pound.

"Ceylon was affected by labor troubles less than India, working conditions

determine whether to buy according to its needs at this high price, or to buy sparingly and carry only 2 months' supply in anticipation of the market.

In attempting to forecast the future price trend it was stated that the post-war high prices had stimulated the growth of tea in Ceylon, India, and Japan, so that about the middle of 1920 a superabundance of tea caused prices to decline to about 15 cents

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were satisfactory, and it produced a quality of teas seldom surpassed. However, the production of Ceylon was below normal. Here is a comparison of Ceylon prices between 1921 and 1922:

	1921 (cents)	1922 (cents)
Poor pekoe souchong	22	34
Poor pekoe, rather stalky	23½	34½
Fair common pekoe	24½	35½
Clean common broken pekoe	27½	36½

"Fluctuations in finer and finest Ceylon teas ranged between 15 and 20 cents a pound.

"Java teas showed further improvement in quality and favorable weather added to the production; the quantity, however, is not great enough to affect prices for other growths.

"China has suffered disastrously in the past seven years, and has only a small part in the total production. Her best customer used to be Russia, which is no longer a tea consumer in any great quantity.

"Statistics for the past year illustrate that tea consumption is still rapidly increasing, the estimate for 1922 standing at the stupendous figure of 700,000,000 pounds. The various countries are represented as follows:

Country	1922 (lb.)	1912 (lb.)	Per Capita (lb.)
United Kingdom	410,000,000	295,275,000	6.45
Russia	15,000,000	147,132,000	0.90
United States	93,000,000	83,298,000	0.89
Canada	40,000,000	34,259,000	4.34
Australia	47,000,000	29,517,000	6.83
New Zealand		7,244,000	7.45
South America	8,000,000	3,474,000	0.62
Germany		9,124,000	0.15
France		2,774,000	0.07
Holland		12,377,000	2.07
Europe, excluding United Kingdom and Russia	28,000,000		
South Africa		7,145,800	1.20
Africa, Persia, Mesopotamia, etc.	29,000,000		
Tibet (about)		20,000,000	
India	30,000,000	25,722,000	
Burma (about)		18,000,000	1.5
Persia		7,918,000	0.83

1912 figures for consumption and per capita consumption are taken from *Simmons' Spice Mill*, October, 1913, pp. 942-943. The South American figures are for Argentina only.

"The production of all grades is figured at 635,000,000 to 650,000,000 pounds, therefore 50,000,000 to 65,000,000 pounds under consumption requirements.

"Stocks held in Great Britain constitute the reserve of the world's tea trade, without which the market would today be in a very perilous position. It is estimated that these stocks at the end of 1922 amounted to 165,000,000 to 170,000,000 pounds, a reduction of 43,000,000 to 48,000,000 pounds from the preceding year. Shipments from India are diminishing rapidly, and, though other countries will

a pound, which was below the cost of production. The Tea Growers Association in Ceylon and India had agreed to curtail the production of tea and thus bring the price back to a paying basis, and was so successful in this effort that by March, 1923, the price had risen to about 42 cents a pound for a good average tea.[2] The firm agreed that this price would revive production and considered it reasonable to believe that prices would fall in 1923.

The J. W. Armstrong Company bought its tea through brokers in Boston who sold for shippers in Colombo and Calcutta. It took from 30 to 60 days to receive tea bought by cable in Boston from Japan, Ceylon, or India. There is a continuous supply of tea the year round, since the crop in Ceylon has no seasonal period and India has only 4 non-production months in a year. The growing season in Japan is much the same as in the United States. Tea in India and Ceylon is mostly grown on English-owned plantations and is shipped as picked to Colombo and Calcutta where it is sold at auction. The buyers in most cases are merchant shippers, residents in the East, who sell through brokers in the United States by cable. Several of the larger tea brokerage firms in the United States retain a broker buyer to purchase on the spot from these merchants. The J. W. Armstrong Company asserted that in years of large production prices might drop quickly since all the tea brought into these different points after it was put up at auction, was sold for the highest bid. Thus a temporary decline in tea prices easily might occur at any time if the auctions received especially large consignments from the interior. Such a drop in prices might be checked when the growers generally learned of it, but the J. W. Armstrong Company believed it possible that if it bought sparingly at the first of the year, it ought to be able to pick up tea at reduced prices at intervals throughout the year. Because of the superior quality

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be shipping their usual quotas to England, it is expected that the British reserve at the end of July, 1923, will not exceed 85,000,000 pounds. The consumption of tea in Great Britain alone is about 35,000,000 pounds a month, which is almost equivalent to a year's consumption in Canada.

"So the prospects of a falling market are very remote for the next six or nine months. London houses whose sales must be classed as the largest in the world, have thought it wise to contract already for forward crops of India, Ceylon, and Java as far as the fall of 1923 at prices that would have been ridiculed three or four months ago."

[2] Cutting the production of tea is not difficult because the tea being a leaf the production depends upon how many leaves are picked and can be curtailed by simply leaving on the shrubs the less desirable leaves.

of Ceylons, Indias, and Javas in May and October, however, it was conceivable that if everyone bought sparingly, prices in May and October might rise as a result of the heavy demand in those months for the high quality teas.

Although the price of tea seemed too high, the company knew that stocks of tea on hand in the United States were low and that no oversupply was reported anywhere else in the world. Furthermore, the United States purchases of tea did not greatly affect prices, because out of approximately 700,000,000 pounds of tea consumed in a year, the consumption in the United States had not quite reached 100,000,000 pounds. Prior to 1914 statistics on tea put the consumption of Russia at 147,000,000 pounds and that of the United States at 83,000,000 pounds. In 1922 the United States consumed 93,000,000 pounds, whereas Russia consumed only a small proportion of its pre-war capacity. If Russia came into the market in 1923 to anything like pre-war years, her requirements might steady and even raise prices. The large consumers of tea, Great Britain and her colonies, were financially in a better condition than they had been since the war, so that it was possible that their consumption would increase in 1923.

Since the risk of the exchange fluctuations in buying eastern teas had been eliminated by the use of dollar exchange, the main features to be forecasted were production and demand. If the firm bought tea sparingly because it believed the market could not go higher, and this forecast proved wrong, it would be difficult to pass this miscalculation on to its consumers if its competitors had forecasted rightly and were well stocked. This was because its competitors sold the different types of tea in packages under their brand names and all similar teas were sold at approximately the same prices. In order to sell "Excellence" Orange Pekoe, the J. W. Armstrong Company did not feature a price appeal, but advertised extensively the brand name and endeavored to build up a belief in the superiority of its brand. Good salesmanship and extensive advertising sold its product at prices in line with its competitors.

The J. W. Armstrong Company in March, 1923, decided to adhere to its policy of buying only an amount sufficient to cover its estimated requirements for two months. It argued that the price of tea was out of line with other agricultural products that although the tea growers of India and Ceylon had demonstrated their ability to reduce production and raise prices temporarily, the condition was abnormal; and inasmuch as the profits of the grower were 3 to 5 cents higher than at the peak of prices in 1920, such a position was not one that would continue.

4. Reuter Coffee Company

PURCHASE POLICY FOR COFFEE AT TIME OF REVOLUTION IN BRAZIL

The Reuter Coffee Company of New York was a large coffee roasting company which imported about 200,000 bags of coffee a year. Bags of coffee varied in weight from 123 to 138 pounds. About two-thirds of the company's importations of coffee came from Santos, the port for São Paulo, Brazil. Since all shipments of this grade of coffee to the United States were stopped at the outbreak of the revolution in São Paulo, on July 4, 1924, the company was undecided as to the correct purchasing policy to adopt. The following report of the revolution was made in the *Commercial and Financial Chronicle:*

> The revolution broke out in São Paulo on July 4 when the revolutionists took possession of the city. . . . . The Federal Government at Rio de Janeiro immediately dispatched war vessels to Santos, which is the port for São Paulo, together with troops to suppress the movement. . . . . It was announced yesterday that the steamships of the Munson Lines had canceled their regular calls at the port of Santos, partly because of the São Paulo rebellion. The Pan-American, north bound, which was scheduled to load a cargo of coffee on July 21, has been ordered to avoid that port and go by way of Montevideo direct to Rio."[1]

The Reuter Coffee Company distributed its one brand of nationally advertised coffee principally in the eastern and middle western parts of the United States. Sales in the southern states were of a cheaper grade which was advertised only locally. Competitors of the company also had nationally advertised brands, and brands sold and advertised locally in the South. The coffee sold in the South by the Reuter Coffee Company had obtained such a strong position in the market that the company was able to charge from 1 to 2 cents a pound more than its competitors. The chief source of coffee sold in the South was Santos.

[1] *Commercial and Financial Chronicle,* July 19, 1924, p. 226.

The Reuter Coffee Company distributed its coffee entirely through wholesale grocers, who received a discount of 12½% from the list price which varied from 30 to 40 cents a pound. Competitors sold both through wholesalers and directly to retailers. The discount allowed to wholesalers by competitors was customarily only 10% of the list price. The Reuter Coffee Company estimated that its net profit per pound of coffee was from 1 to 1½ cents.

The Reuter Coffee Company purchased approximately all its coffee through brokers from Santos exporters, and companies or importers in the United States who maintained branches in Santos. Purchases were made c.&f. New York under a 90-day dollar letter of credit in favor of the South American exporter or the American importer. It was necessary for the company to pay cash for the coffee purchased from stocks already in the United States.

It was the custom of the Reuter Coffee Company to limit the quantity of coffee in sight, that is, in stock and afloat, to one month's supply. Because of the fluctuations in the price of green coffee, a larger quantity in sight was considered to subject the company to unnecessary risks. On July 4, 1924, the company had about 10,000 bags or one month's supply of Santos coffee in sight and had commitments for the same amount which at that time had not been shipped from São Paulo. All this coffee had been purchased for between 19 and 20 cents a pound.

Because of the revolution in São Paulo, four courses of action were considered by the executives of the company. The first plan was to purchase at once a supply sufficiently large to cover the company's requirements for a period as long as the trouble reasonably could be expected to last, for example, five to six months. This would require about 50,000 bags of coffee. The second possible course of action was to purchase no coffee, either for stock or to replenish stock, upon the opinion that the revolution would be of short duration, and that the coffee for which it had commitments would be shipped soon. The third plan was to purchase no supplies of coffee for stock, but to purchase from importers as orders from customers were received. The fourth method considered was to purchase one month's supply from importers or others who had coffee afloat or in stock. This supply was to be increased if the situation appeared to become more serious.

If the company decided to purchase from five to six months' supply, it would be assured of the correct grade of coffee at a price of about 21 cents a pound. This would enable it to supply its regular customers with their requirements regardless of the seriousness of the revolution. Immediately upon the outbreak of the revolution, orders from customers had increased substantially because, although the price of spot coffee in New York had risen 2 cents a pound after July 4, the company had increased its price only 1 cent. A few orders had been nearly three times the size of the orders normally placed by these particular customers. A five months' purchase would relieve the company of any problems occasioned by substituting coffee from other countries for that which it regularly had used.

On the other hand, the purchase of 50,000 bags of coffee would require the use of at least $1,300,000. The company was uncertain whether the banks would extend this additional line of credit. If the banks were unwilling, however, the management knew that the money could be secured from the officers of the company, or by placing the coffee as collateral for a loan. The cost of storage would be an added expense, moreover, since the company did not have adequate storage facilities to contain a five months' supply. The company estimated that the total carrying charges, including interest and storage, would amount to ⅛ of 1 cent a pound a month. If the revolution proved to be of short duration, the company would have on its hands not only the five months' supply, but the one month's supply for which it had commitments at the outbreak of the revolution. An even more serious difficulty was presented by the fact that so far as the executives of the Reuter Coffee Company could determine, the total quantity of coffee "in sight" was not much in excess of 50,000 bags. The purchase of this quantity by the company probably would cause an increase of from 3 to 5 cents a pound in the price of coffee in the New York market.

Since the net margin of profit upon which the company operated was only 1 to 1½ cents a pound, a decrease of 2 cents a pound in the price of coffee was sufficient to cause a loss. The company could receive no protection from hedging, as the price for spot coffee in New York and the quotations for futures in coffee upon the coffee exchange did not fluctuate always together. The price of futures, for example, might decrease because of

favorable crop reports, while the price of spot coffee might increase because of small stocks in New York.

If the company should adopt the second plan, that of refusing to purchase any coffee, it would be following the policy which the executives of the company believed a few competitors were adopting. One competitor had sent a letter to all his customers stating that it was unwise for them to purchase any coffee at that time and advising them to wait until fall. The executives of the company believed, however, that the opinion of its competitors in this respect might be influenced by the fact that they already had much heavier commitments than were customary for Brazilian coffee. They hesitated, consequently, to purchase quantities of spot coffee, for the sudden ending of the revolution would leave them oversupplied. The executives of the Reuter Coffee Company were of the opinion, also, that since the company distributed through wholesalers rather than directly to retailers its sales increased sooner than those of its competitors. The company did not consider it a wise policy, furthermore, to make a definite forecast as to the future price of coffee. Such a forecast was at best only an opinion. If this opinion were wrong, the goodwill of the company with the trade would be lessened.

A further disadvantage of the second plan was that if the total supply of coffee were exhausted quickly, the company would have to purchase Mexican or South American coffee, and to attempt to substitute it for the company's current grades. Since this coffee was from 4 to 6 cents higher in cost, the company would have difficulty in selling its coffee in competition with companies which had purchased the Brazilian coffee at lower prices. On the other hand, however, the plant had the advantage that no additional capital or credit was required. The company would not be subjected to the loss incurred by fluctuations in price such as would be encountered if the first plan were adopted. It was remembered that in 1914, when German cruisers had stopped the arrival of all coffee in America, the situation appeared to be serious, and the price of spot coffee rose rapidly only to decrease a few weeks later when the trouble was over. If this situation were to be similar in outcome, the second plan undoubtedly would be preferable.

If the company adopted the third method, that of purchasing quantities of spot coffee as it was necessary to replenish the stock, it would not need to supply the capital for purchases of 50,000

bags or to run the risk encountered in carrying large stocks. It would not diminish, furthermore, the stock which it already held. If this policy were adopted, however, the company would have to increase the price of its coffee as the cost of its purchases increased. It would be difficult for the company to do this in competition with other companies who were going into the market at that time and purchasing their coffee at the prevailing price, or those competitors who were refusing to purchase any coffee on the presumption that the price would decline. It would be difficult, moreover, to obtain high quality coffee after the existing stocks in the United States and afloat were exhausted. The executives of the Reuter Coffee Company thought that because of the possibility of loss through carrying large stocks, a few of its competitors were adopting this third policy.

The fourth possibility, that of the purchase of one month's supply, appeared to be the best plan. The company recognized that it could not guarantee to continue its current prices. If the revolution became more serious, it soon would be necessary to go into the open market and purchase additional spot coffee. In this, the company would meet with the disadvantage of being unable to obtain the correct grade, and of having to pay the price then existing. If the revolution continued long enough, furthermore, it would be impossible to secure any Santos coffee, and the problem of substitution would have to be met. The company would be unable to meet the demands of those customers who placed orders two and three times their customary size. This was beneficial to the customers, since it did not place them in the danger of suffering a loss through a sudden drop in the price of coffee. The Reuter Coffee Company, furthermore, thus could operate on a normal production schedule rather than at peak schedule for a short period and at much less than normal production after the large orders were filled.

The adoption of this plan, moreover, would not subject the company to the possibility of a heavy loss in case of a decrease in the price of green coffee. Storage cost would not be incurred since the company had storage facilities for one month's supply. This plan, which would enable the company to supply a good grade of coffee to its customers for at least a month, was better than either the second or third plan. Although the capital re-

quired was not so large as in the first instance, nevertheless, between $275,000 and $300,000 would be required.

A further advantage of this plan was that the company would not have to make a definite forecast to its customers as to the future price of coffee. If it appeared, as the month progressed, that the commitments that the company already had in Brazil would not be received, the company could go into the open market and purchase additional quantities. If the market declined immediately, and the shipments began to arrive from Brazil, the company could reduce its price without serious loss.

The fourth plan was adopted by the Reuter Coffee Company. In the middle of August it was satisfied that its decision had been wise. The first shipment of coffee from Brazil arrived in New York a few days before the middle of August, and the Reuter Coffee Company had received notice that its shipment would arrive the twenty-eighth of the month. It was the opinion of the executives of the company that those competitors who had refused to buy any coffee in the belief that the situation was temporary, had become worried by the increase of 5 cents a pound and by the continuation of the revolution. They, consequently, had purchased coffee at about 24 cents a pound. The same grades of coffee were sold at wholesale in the middle of August for 21 cents a pound. Had the company adopted the third policy and purchased spot coffee only as it was needed, the purchases made in the latter part of July and the first of August would have been unsatisfactory, as the particular grades which the company desired were not being offered for sale.

5. Carnan Spice Company

PURCHASE OF YEAR'S NEEDS OF PEPPER IN JANUARY

The Carnan Spice Company imported and ground spices. Because of the low price of pepper in January, 1924, it considered the purchase of a sufficient quantity to supply its needs throughout the year rather than purchasing only enough to last until the summer crop was available. The estimated requirements of pepper for the year were 400,000 pounds. In addition to pepper, the company imported cassia, cloves, ginger, pimento, mustard seed, and caraway seeds.

Pepper was grown in nearly all the countries between Hindustan on the west and New Guinea on the east. The island of Sumatra was the largest producer.

The Carnan Spice Company, as a rule, secured information concerning weather conditions and the other conditions afflicting the size of the crop in the countries of production directly from reports made by producers or through their agents or representatives in New York. The size of the inventories carried by wholesalers and importers in England was published. The only obtainable information of the stocks in the United States was the estimates made by brokers and the estimates made by the officials of the Carnan Spice Company which were based upon the difference between the known imports and the estimated consumption.[1]

In addition to poor crop conditions, there frequently were other circumstances which disturbed the price of particular spices. Pepper, in common with the other spices, was produced in two crops a year. The second or summer crop was of the same quality but always was much smaller than the winter crop. The winter crop was sold during January and February and the summer crop during the fall. Generally the pepper vines produced a large crop one year and a small crop the following year. Because of the wide area over which pepper was produced and the size of the crop there had been no pepper monopolies and it was not possible for a small group to purchase the entire crop. World consumption averaged from 50,000,000 to 60,000,000 pounds a year and the consumption of the United States about 30,000,000 pounds. Previous to the World War, the American market had not controlled the price of pepper because large quantities were stored in Europe either to be sold to consumers or for speculative

[1] Imports of Unground Black Pepper for Consumption into the United States from 1912 to 1923, as Compiled by the United States Department of Commerce

Year	Pounds (000 omitted)
1914	21,809
1915	26,620
1916	32,174
1917	26,586
1918	31,570
1919	20,316
1920	22,687
1921	33,221
1922	33,675

purposes. With the inability of Europe, however, to purchase readily large quantities or to hold them in stock after purchase, the American purchasers came into control. It was possible that if the 20 largest purchasers of pepper in America should undertake to fulfil their requirements at one time the price would be increased temporarily. The president of the Carnan Spice Company did not expect this situation to occur, since there never had been concerted action among the large purchasers. The pepper crop usually was placed upon the market immediately after the production season because the producers needed funds and because the crop would deteriorate if kept in the hot country where it was produced.

In January, 1924, the Carnan Spice Company could obtain, at prices ranging from 6 to 6½ cents a pound in bond, sufficient pepper to supply its needs for the year, approximately 400,000 pounds. In the opinion of the executives of the company, one of the most important points to be considered in making large purchases was the comparison of the existing price with an average price. Eight cents a pound in bond was considered a normal price for pepper, and 10 cents a pound a high price.[2] It was the policy of the company not only in pepper but in all spices to purchase in excess of its current needs whenever the price appeared below the average price. On the whole, this policy had been satisfactory.

The information which the executives of the Carnan Spice Company obtained concerning pepper production was that the winter crop had been of average size. Stocks of pepper in the United States were not large, possibly smaller than usual. Sales of pepper by merchants to grinders were not large. The desire of the producers for funds had led to an oversupply in the market and the consequent decline in prices. The grade of pepper which was 10 cents a pound in January, 1923, was 8 cents a pound

[2] Fluctuations of the Average Price of Black Unground Pepper in New York from 1913 to 1923

	1913	1914	1915	1916	1917	1918	1919	1920
First quarter	10	11	14	18	23	24	22	18
Second quarter	10	11	15	17	25	28	19	16
Third quarter	10	12	14	17	24	27	21	13
Fourth quarter	11	12	14	18	23	24	19	11

	1921	1922	1923
First quarter	9	7	10
Second quarter	9	8	9
Third quarter	8	7	9
Fourth quarter	7	8	9

in January, 1924. The general conditions of the market reported daily by New York spice brokers were considered authentic, but the predictions as to future possibilities were discounted because the company believed that the broker's judgment was influenced unduly by current conditions.

The following are extracts from special market reports received by the Carnan Spice Company from one of the largest spice brokers in New York:

December 8, 1923. *Pepper* remarkably steady in foreign markets after the recent rise and equally so here where there is very limited reselling for profits. There being next to no pepper here, speaking broadly, the tone keeps steady and the prospect is for something approximating this situation for several weeks to come. The Malabar sorts keep far above our spot prices for spring shipment. The Java crop of lampong is largely sold and shipped. The whole group shows reasonable and well founded steadiness in both afloats and futures for considerable time to come.

December 15. Pepper, fairly steady under some selling to take profits on dock lots of lampong at a shade lower price, while white peppers, Tellicherry, and Aleppey are dull and hardly any change for the week. There is a fair amount of unsold lampong due this month and there is a very healthy demand from the grinders absorbing this stuff for current needs. . . . . Few consumers are adequately supplied ahead for needs after February 1.

January 19. Pepper is steady and here and there a twist or two higher in the Orient. The trade is neither large nor small and does not signify much. Spot peppers are all lower here than abroad, the prices of whites inexplicably so. The consuming trade is fairly but not amply supplied. Stocks here are greatly reduced since October and are now becoming very light indeed in all classes. In Malabar, the American consumption of which for some time past has very largely increased, India is far above us in prices owing to the short crops there, and there can be no such importations here as in 1922 or 1923. . . . . There is more interest shown in the market generally and a rather more lively market is not improbable.

If the company purchased its year's supply in January, it was necessary to take into consideration the purchase cost, the added interest cost, the extra cost of storage, and the loss through shrinkage. Credit to pay for the contemplated purchase could be secured without difficulty. If the company bought the year's supply of pepper in January, it would receive its last shipment by the first of July. The cost of storage would not be much increased because the company recently had purchased a building

to be used for a storehouse. Although the shrinkage in pepper frequently had been as much as 6%, shrinkage on the quality which was acceptable according to specifications of the contract of the American Spice Trade Association was only 3%. The president of the company estimated that the total carrying charges upon this purchase, including interest, shrinkage, and storage, would amount to an average of 1 cent a pound.

Since Congress probably would not be in session during the summer, there was little likelihood of a removal of the tariff and a consequent depression of price in the United States.

The purchase of a year's supply of pepper did not involve speculation in foreign exchange because most sellers preferred to be paid in dollars. If, however, the seller preferred London exchange, the company immediately could purchase sufficient exchange to cover the entire cost. Thus it might guarantee the ultimate price of the merchandise. The Carnan Spice Company did not wish to speculate on exchange.

The company had to risk the danger of the seller's failure to deliver if the price increased. If the seller was financially responsible, the Carnan Spice Company could institute claims against him for the difference between the price at which it was able to purchase pepper in the open market and that specified in the contract with the seller. If the seller was not responsible, there would be a loss to the company through its inability to make other purchases before the price increased. Because the president of the company thought that the low price made the opportunity an especially favorable one, the company purchased sufficient pepper to fulfil its requirements for the year 1924. On September 3, 1924, the pepper which the company had purchased at from 6 to 6½ cents was quoted at 9¾ cents.

6. Sanderson Trading Company

DISCONTINUANCE OF CARPET WOOL TRADE AS A RESULT OF CHANGES IN THE CARPET INDUSTRY AND IN TARIFFS

The Sanderson Trading Company, located in New York City, was engaged in the importation of wool which it sold in the United States principally to manufacturers of carpets and rugs. Wool used in the manufacture of floor coverings was coarse, with a

short staple. This type was not produced in the United States.[1]

The most important source of supply was China, including Tibet and Mongolia, which furnished the United States with about 50% of the total imports. Syria, Turkey, India, Cordova, Siberia, Persia, Afghanistan, and Northern Africa were other sources. It was estimated that the majority of the imports of carpet wool from England, which was about 30% of the total, originated in China.

The exportation of carpet wool from China was controlled by about eight companies located in Tientsin and Shanghai. These companies also were engaged in the exportation of other lines of merchandise, such as hides, skins, camels' hair, and egg products. Each of these companies employed a Chinese compradore upon whom the success or failure of the business depended to a great extent. He obtained samples of the wool before it reached the principal markets and the prices at which it would be offered. He made all purchases and upon him was placed the responsibility that each lot should equal the sample in grade, color, weight, length of fiber, and amount of shrinkage when willowed or beaten.

The Sanderson Trading Company had a controlling interest in one of these companies located in Tientsin from which it purchased all its requirements of carpet wool. It received frequent cable offerings on the basis of which it quoted prices to carpet and rug manufacturers. Most of the wool was purchased unwashed and was to fill orders placed at definite prices by carpet and rug manufacturers; but the company frequently bought on its own account and stocked the wool when a rise in prices was expected. In 1912 the president of the Sanderson Trading Company proposed to the other executives that the company discontinue the importation of carpet wool.

Manufacturers of carpets and rugs in the United States had been consolidating or buying out competitors until the industry

[1] IMPORTS OF WOOL INTO THE UNITED STATES

	Carpet Wool		Clothing Wool		Combing Wool	
	Pounds	Dollars	Pounds	Dollars	Pounds	Dollars
1913	111,168,094	15,890,576	67,238,715	15,422,920	16,886,446	4,266,327
1922	173,035,833	29,267,134	38,401,590	9,471,786	155,101,038	44,357,492

was controlled by about five companies. As a result, the number of customers of the Sanderson Trading Company was limited. The president of the Sanderson Trading Company believed that he could not increase sales since the company already was importing one-fifth of the total imports into the United States. This estimate took into consideration the competition that he had to meet both in the purchase and the sale of the wool. The limitation in the number of potential customers placed the Sanderson Trading Company virtually under their control. They did not follow its advice as to time and quantity of purchases, but refrained from buying in order to obtain lower prices. This made it necessary for the company to stock the wool for long periods so that the expense incurred had caused the company's profits to decrease substantially. Wool which the manufacturers of rugs did not purchase was sold at a loss to manufacturers of cheap woolens.

There were disadvantages, however, in discontinuing the importation of carpet wool. The company was well known and had a reputation for the quality and grades of its wool. The maintenance of a buying organization in China gave it advantages over most competitors in price and quality and gave it the ability to choose lots at the time they were first offered since the latter had no such organizations. The compradore employed at the Tientsin office, moreover, was a man of unusual shrewdness and ability. His services had given the company an advantage in buying over most of the competitors who had purchasing organizations in Tientsin. The discontinuance of importation of carpet wool, moreover, involved replacement by another line in which the officials had little experience. The president believed that the number of manufacturers of cloth who used wool of a higher grade was sufficient to allow the company to operate without being subjected to the control of its customers. Consequently, purchases could be planned to take advantage of anticipated price trends. Difficulty, however, would be encountered in entering a new market because the company lacked connections with potential customers.

Later in 1912 the Sanderson Trading Company decided to discontinue the importation of carpet wool gradually in order not to eliminate immediately a source of profit and in order to allow time to develop another line. During the period of the World War and for the two years following, the company directed the efforts of the entire organization toward increasing its sales in other grades of foreign and domestic wools. During this same period, notwithstanding the fact that all sales pressure had been removed, the increasing demand from carpet and rug manufacturers for China carpet wool and the upward trend of wool prices made it profitable to continue importation. The company, therefore, decided to abandon its former decision, and an intermediate course of action was adopted.

In 1922 two adverse events caused the executives of the company to reconsider the problem. The Tientsin company, in which the Sanderson Trading Company had a controlling interest, went into bankruptcy. This was the result of speculation in lines other than wool. Shortly after this, the Tariff Act of 1922 ruled that wool for use in the manufacture of floor coverings could be imported free of duty. If the wool imported was used for any other purpose, it was subject to a duty of 12 cents a pound unwashed. Washed wool was subject to a duty of 18 cents and scoured wool 24 cents a pound. Under the provisions of the so-called "carpet bond" any wool imported free of duty for use in the manufacture of floor coverings and sold for any other purpose was subject to the regular duty, plus a penalty of 20 cents a pound. This ruling prevented the company from following its usual policy of disposing of any excess wool which had not been purchased by carpet manufacturers by selling to manufacturers of cheap woolens.

Since the same relationship of control by carpet manufacturers over the Sanderson Trading Company's activities still existed, the company decided to discontinue immediately all importation of carpet wool from China. Although it would have been possible for the Sanderson Trading Company to refinance its subsidiary company in China, under existing conditions it did not consider that such action would be justified. The company, therefore, sold its interest in the Tientsin company, although it obtained less than one-fourth of its original investment. Since it had purchased and sold successfully other grades of foreign and domestic wool during the period intervening, the company considered that it would be able to retain an important position in the wool market, and consequently reverted to the decision made by the president in 1912.

7. Castern Company

DISCONTINUANCE OF IMPORTATION OF PHILIPPINE EMBROIDERY AND HATS AND SPECIALIZATION IN JAPANESE AND CHINESE GOODS

The Castern Company, of Philadelphia, was organized in 1870 to import general merchandise of any type from any source. In 1899, soon after the American occupation of the Philippines, the company began to import the products of these islands. The company had followed a policy of discontinuing the importation of those materials which yielded the least profit and of specializing in the most profitable commodities. By 1919 the company had discontinued all importations except embroideries, laces, baskets, and hats from the Philippines, and silk grey goods and cotton crepes from Japan and China. Because an influx of inferior Philippine goods in the American market in 1918 and 1919 had made competition more keen in those products, the Castern Company considered the discontinuance of its trade with the Philippine Islands in order to devote its energies to specialization in Japanese and Chinese silk goods.

In 1919 the Philippine Islands were still in the handicraft stage of manufacturing development. Embroideries, hats, and baskets were made by hand in the native huts. Under the previous Spanish rule, embroidery and handiwork had been taught in the convents, and the excellence of the handiwork was unquestionable. Under American occupation, handicrafts were taught by the Bureau of Education to school children.

The Castern Company had built an assembly plant at Manila in 1909 which represented a capital investment of $300,000. With this as a base, an organization had been developed for dealing with the natives throughout the islands. It was necessary to employ native middlemen, called cabecillas, since natives spoke only Filipino dialects or imperfect Spanish. The company shipped from the United States to its factory in Manila the cotton lingerie, children's clothing, table linen, and other articles which were to be embroidered. The principal articles embroidered were women's undergarments of all kinds and baby clothing. Garments were cut out in the United States from American cotton fabrics. The Castern Company ordinarily used high quality "96/100" 40-inch-wide material. It purchased all material from two American mills and had established a reputation for high and uniform quality both in regard to materials and workmanship on embroidery. These pieces were distributed to the cabecillas who in turn distributed them to the natives who were to do the work. The company also furnished the stencils for designs and advanced money to the cabecillas, who paid cash for the work as it was turned back in pieces by the natives.

In addition to embroideries, the company imported Philippine handmade hats, such as bankok and baliwag. It was able to use its same organization in Manila for the purchase of these hats.

Prices paid for work were determined by bargaining between the company and the cabecillas. The company, from time to time, established standard prices, such as 25 cents a garment for plain scalloping on a nightgown. These prices were based on what it was necessary to pay workers in the factory at Manila. The company then bargained with cabecillas, who represented different groups of natives. Prices were determined on the basis of the standard price and the type of quality of embroidery work desired. Each locality and group of natives was skilled especially in some one type of embroidery or lace making. It often was necessary, therefore, to send a single garment to several different parts of the islands if the design called for several kinds of embroidery such as scallops, colado or open work, or solid work. The cabecilla was supposed to receive a 5% commission, but there was no way of determining what prices actually were paid the natives. The company employed about 200 cabecillas, each of whom represented about 500 native workers. The company thus received the work of about 100,000 to 125,000 natives.

In its assembly plant, the company employed about 200 women and a few boys. Embroidered articles and lace came into the factory from the natives and cabecillas at the rate of 2,000 to 3,000 pieces a day. They were inspected, laundered, and packed for shipment to the United States. In the United States the company was organized to sell to department stores and wholesalers who distributed to small specialty stores. Sales branches were maintained in several large cities. Domestic sales terms were 3% discount in 10 days or 2% in 10 days, 60 days extra.

The company's sales of Philippine products in the United States averaged about $1,000,000 a year. Sales in 1917 and 1918 had been increasing, and it was expected that sales for 1919 would

reach $1,500,000 because of increased American demand and increased prices on cotton goods. The company ordinarily sold Philippine embroidered garments at a 50% mark-up on the cost of goods landed in the United States. In the case of nightgowns, the average distribution of cost was as follows:

Material	$ 6.00	a dozen
Labor in embroidery	3.00	a dozen
Washing and ironing	1.20	a dozen
Sewing	1.20	a dozen
Freight and incidental charges to and from the Philippines	1.20	a dozen
Total landed cost in America	$12.00	a dozen

These nightgowns were sold at $18 a dozen and usually retailed at $2.50 to $3 a garment. The company's selling and overhead expenses amounted to from 15% to 20% on sales. Department stores and other retailers sold at a 50% to 100% mark-up on their costs. The mark-up depended on their judgment as to the salability of the designs. Because of the long distance from the market and the time consumed in handiwork, the turnover on Philippine goods was once in 1½ years. Since it was necessary to purchase cotton goods in advance and to pay the natives in cash, a capital investment in inventories of over $500,000 always was necessitated. Because it had been necessary to purchase its cotton raw material a year and a half ahead, and since prices had risen, the company found in 1919 that it could sell at a 75% to 100% margin above cost instead of the usual 50% mark-up.

The company had difficulty in keeping a suitable person as resident manager of its assembling plant in Manila. It had found no natives competent to fill the position and most Americans preferred not to stay in the Philippines for more than two or three years at a time. The position of Philippine resident manager was a responsible one since it was necessary to bargain continually with the cabecillas in prices and to maintain close inspection of quality.

Previous to 1914 the quality of workmanship in both embroideries and hats had been excellent, and Philippine handmade garments had a reputation for excellence in the United States. During the World War, however, the demand for Philippine articles increased. The value of exports of embroideries and hats from the Philippines to the United States had increased over 300%

from 1915 to 1916.[1] The quality of workmanship became irregular and non-uniform because of the increased production and the lowering of inspection standards by companies trading in inferior products. It was necessary, especially in the purchase of hats, to have a skilled person inspect purchases. If the company attempted to buy hats in large lots of several thousand at a time from small collectors and dealers, prices were raised immediately. It thus was necessary to purchase frequently and in small lots. The sale of hats was seasonal since straw hats were used in the United States only in summer. The company's sales of hats amounted to about one-third the total sales of the Philippine articles. About 80% of its hats were sold on a commission basis upon receiving advance orders from wholesalers and large retailers. Commissions of 10% to 15% were charged. After 1916, when Philippine production was increased to meet the increased American demands and when quality became uncertain, several customers rejected large orders from the Castern Company because the hats when delivered were not of expected quality.

At the beginning of 1916 the company found difficulty in competing with the large influx of inferior Philippine hand-embroidered garments that were imported into the United States by Syrians. The company found that the Syrians worked in family groups; one group remained in the United States and another lived in the Philippines. They had small overhead expenses, worked at all hours, were able to live and deal with the natives in the Philippines, and traded on a small margin of profit in goods of inferior quality. Garments sold by them were often short in materials, of cheaper fabric, and poor workmanship, yet, because of the reputation for quality of Philippine undergarments, inferior

[1] EXPORTS FROM THE PHILIPPINES TO THE UNITED STATES*
(*In Philippine Pesos*)

Year	Embroideries	Hats	Laces
1914	324,000	507,000	2,000
1915	732,000	494,000	4,000
1916	2,293,000	1,272,000	5,000
1917	3,924,000	1,375,000	22,000
1918	4,310,000	1,154,000	21,000
1919	6,855,000	1,280,000	19,000
1920	15,569,000	1,285,000	71,000

* Reports of the Philippine Custom-house.

garments found a ready sale in small side-street stores and even in department stores at prices which the Castern Company could not meet profitably. The average retail price on the company's garments was from $3 to $5. Inferior garments were sold at 20% to 30% lower.

Although the company emphasized the high quality of its articles, greater sales efforts were required to obtain the price differential which the difference in quality justified. This was true even in selling to department stores which specialized in high-class products. The company also found that the embroidery and lace designs which it originated were copied in the Philippines and reproduced on inferior material even before the company's products reached the American market.

The president of the company had noticed, moreover, a tendency toward a change in style in women's undergarments during the World War. Women were wearing less underwear and fewer garments. Corsets and shirt waists were becoming less common, and simple silk or crepe garments were displacing embroidered cotton garments. The demand for silks instead of cottons had been increasing. The president believed that the demand for silks would continue on a large scale because of the increased standard of living and because of the wearing qualities, ease in laundering, and personal comfort offered by silk undergarments. He also believed that when the World War was over, French lingerie again would compete. French garments, although usually of no better quality than Philippine work, had the competitive advantage of being imported from France, where women's styles originated.

The company had made unsuccessful experiments in having silk garments embroidered in the Philippines. Silk which was imported to the Philippines from Japan bore an import duty of 60% and Philippine embroidery work was not suited to silk garments. It was found that silk embroidered in the Philippines would have to retail in the United States at about $20 a garment if the usual profits were to be realized. Few sales could be made at that price.

Costs of production in cotton garments were increasing in 1917 and 1918 both because of the increased cost of raw cotton and labor in the United States and the increased wage standards in the Philippines. When the Castern Company entered the Philippines in 1899, the average daily wage it paid to natives was 6 cents, United States currency, for women, and 12 cents for men. By 1919 this had increased to 25 cents a day for women and 50 cents a day for men. The price differential between silk and cotton garments in the United States had become less. The president of the company believed that this condition would continue after the World War and would have a permanent effect in an increased demand for silk garments.

By 1919 the Castern Company had developed its trade in Japanese unconverted native woven habutai and pongee silk piece goods and Chinese cotton crepes until sales in 1917 and 1918 averaged about $500,000 annually. It purchased high-quality Japanese silks through a New York commission house which maintained offices in Yokohama, Kobe, and Osaka. The commission charged was 5%. The company used the same domestic sales organization as it used for its distribution of Philippine goods. The silks were sold to department stores and wholesalers as unconverted grey goods or dyed or printed to suit the demand of the stores. By having the goods converted in America, risk of change in styles in the colors and designs was lessened.

If the company discontinued its importation of Philippine goods, it might suffer a serious decline in sales for several years since Japanese goods had been considered a side line and sales had not been pushed. It was estimated, however, that the company could increase its sales of Japanese silks through greater efforts of its sales organization. The company received daily cable quotations on silks from its New York commission house. It then quoted to its customers on a basis of replacement cost plus a 10% to 30% mark-up. Since the market price in the United States was determined by the current cost of replacement from Japan, the company, by forecasting the price trend of silks, might make large profits on speculative purchases. To large department stores it was necessary to quote at the current market prices which averaged about 10% above replacement cost. Prices to smaller stores and inland stores could be quoted at a higher mark-up and were adjusted only for major fluctuations in replacement costs. Because of fluctuations in prices, no definite profit could be expected. The company had been successful, however, in purchasing in anticipation of price movements. Conditions during the World War had been too unstable for the company

to determine what might be the normal net profit to expect in trading in silk piece goods. Continued rising prices in both silk and cotton in 1918 and 1919 made unusual profits possible on goods purchased in advance.

Deliveries from Japan took from six weeks to eight weeks. Since department stores sometimes order three or four months in advance of delivery, the company did not have to carry a complete stock. It carried samples and small stocks at its branches in the principal cities in the United States. The turnover, thus, was reduced to between four and five times a year as compared with once in one and one-half years in the Philippine trade.

The company was assured of the quality of the piece goods purchased from Japan because the Japanese Government maintained strict inspection of silks and the company purchased only silks with the government stamp. Habutai silks, which were the product of Japanese native hand looms, were not duplicated in the United States. The company had found no domestic article which duplicated Chinese cotton crepes at the price which the Chinese offered.

There was danger, however, in specializing in a few products from one country. The Japanese practically had a monopoly on the world silk production. French and Italian silks could not compete in price. Chinese silks were unreliable in quality. The prosperity of Japan, however, depended largely on the one commodity, silk, and on one market, the United States, which took approximately 90% of the country's silk production. Sales of silks were influenced by style and business conditions, and there was an increasing use of artificial silks which might offset the demand for real silk.

In the fall of 1919 the Castern Company received an offer of $500,000 for the purchase of its assembly plant and organization in Manila. Material inventories in the Philippines and afloat could be sold at double the original cost. The company had an inventory of finished goods which it could liquidate in six months at from 75% to 100% above cost. Although business conditions were then favorable and the sales of the company in Philippine articles were above $1,000,000 yearly, the president believed that the competition of inferior goods and the tendency toward style change in imported undergarments eventually would eliminate all profit on the company's Philippine trade. No other products from

the islands could be imported with sufficient profit to justify the maintenance of the organization. The company decided, therefore, to sell its assembly plant, to discontinue all importing from the Philippines, and to specialize in Japanese unconverted silk and Chinese cotton piece goods.

8. Sapulpa Company

EFFECT OF PROPOSED TARIFF LEGISLATION ON IMPORTING

The Sapulpa Company was a Philadelphia importer and wholesaler of toys, china, glass and bead novelties. For several years previous to 1914 it had made annual purchases of about $50,000 in Germany and domestic purchases of about equal size. From 1915 to 1919, war conditions prevented the company from making purchases in Germany. In 1920 it purchased to an amount of about $20,000 from samples mailed from Germany and planned to renew, in the spring of 1921, its pre-war custom of sending a buyer to Germany to make purchases of about $50,000. Because of the pending change in political administration in the United States and because of uncertainty regarding the proposed emergency tariff bill and anti-dumping legislation, the president of the company questioned the advisability of making purchases in Germany.

The Sapulpa Company ordinarily purchased in Germany in February and March for delivery during the summer and early fall. The company resold to retail stores in September, October, and November for the Christmas season. Sales during the remainder of the year were small.

Most kinds of toys, especially dolls, chinaware, musical toys, and cheap handmade toys, could be produced more cheaply in Germany than in the United States. Previous to 1914 German toys could enter the United States bearing a 35% ad valorem duty and compete favorably with American-made goods. Duplicates of many German toys, however, were not made in the United States. In 1919 and 1920 the cost of American-made toys was from 100% to 200% higher than the cost of similar toys made in Germany. The German mark, which at gold par was worth 23.82 cents, had dropped to an average of 3 cents in 1919, and 1.8 cents in 1920. The price level in Germany in

1920 and early 1921 had not risen in proportion to the fall of the mark and thus there was a lag in the parity between the purchasing powers of the mark and the United States dollar. Quotations in German paper marks made the importation of toys unusually profitable. In spite of the fact that the Sapulpa Company had experienced a period of business depression before the Christmas season in 1920, it had made about 50% gross profit on its German purchases.

In December, 1920, and January, 1921, there was nation-wide agitation over tariff revision. A change of administration from Democratic to Republican was to take place in March, and the Ways and Means Committee of the House of Representatives was already working on the revision. An emergency tariff bill had been introduced into the House of Representatives on December 20, 1920, and there were rumors of radical tariff legislation soon to be proposed. The company decided to postpone its purchasing in Germany until the new tariff bill should be passed or until a definite policy of tariff legislation should be determined. The emergency tariff bill passed the House of Representatives and the Senate, but was vetoed by President Wilson on March 3, 1921. The company then decided to wait until the 67th Congress assembled.

On April 12 a new emergency tariff bill was introduced in the House of Representatives and was passed by the House on April 15. This bill contained no revision of the 35% duty on toys, but had strict anti-dumping clauses which provided that foreign-made goods could not enter the United States at a cost below the cost of production. There was, furthermore, a provision on valuation of foreign currencies for tariff purposes which compelled the Secretary of the Treasury to place a valuation of 8 cents on the German mark. Since the current rate of exchange was 1.6 cents a mark, duties on German goods would be increased about 500%. Such a provision, if enacted into law, meant virtual exclusion of all German goods.[1]

[1] "By limiting currency depreciation to 66⅔%, we will be able to collect at least some portion of the duties which Congress intended to impose on imported merchandise. When the invoice is in American currency, and the importer makes entry in marks, the duty is not collected upon the depreciated value of those marks. He thus pays duty upon a much lower sum than he has actually paid for the goods." *The Report of the House Committee on Ways and Means on HR 2345*, by Mr. Young.

"We discover at the last words of this bill—Section 14—the most subtle and dangerous joker which was ever attempted to be perpetrated upon the House. The Secretary of the Treasury is authorized to fix the value of foreign money, in the following words:

> 'Provided further that in the estimation and liquidation of duties upon any imported merchandise, the collector of customs or persons acting as such shall not in any case estimate the depreciation in currency at more than 66⅔ per centum.'

"Today the German mark is quoted in the foreign exchange of the daily press as being worth 1.62 cents. If this provision of the bill submitted by the majority becomes a law, the Secretary of the Treasury would be compelled to calculate the German mark as worth 8 cents, thereby increasing the duties imposed upon imports from Germany, 480%." *Views of the Minority*, by Claude Kitchen.

Source: 67th Congress, First Session, *House Reports, Volume I, No. 1, Emergency Tariff Bill.*

Although the emergency tariff bill passed the House of Representatives, the clause providing for valuation of foreign currencies had met strong opposition. The provision was so radical and minority opposition so strong that the possibility of an amendment in the Senate seemed probable. The company expected that American toys of the type similar to those made in Germany would be difficult to sell if the tariff act were modified so that German goods were allowed to compete.

There was still time in April, 1921, for the company to carry out its plans of purchasing in Germany. German exchange had been fairly stable for over a year[2] and a demand for German toys was anticipated. Toys which cost the equivalent of $1 a dozen in Germany, were selling in the United States at from $3 to $4 a dozen. With a duty of 35% and freight and commission charges of about 35%, the landed cost in the United States would be about $1.70 a dozen. This made possible a gross mark-up of

[2] SPOT QUOTATION ON GERMAN MARKS IN NEW YORK ON FIRST OF MONTH*

1919 average $0.03 per mark
1920 average .018 per mark

Month	1920	1921
January	$0.017	$0.016
February	.011	.016
March	.013	.016
April	.017	
May	.022	
June	.026	
July	.025	
August	.021	
September	.017	
October	.015	
November	.013	
December	.014	

* *Survey of Current Business*, April, 1921.

about 100% on the landed cost. Because of unstable conditions in Germany, it was difficult to estimate the probable charges on freights, commissions, and incidentals. If, however, toys could be entered at the former duty of 35%, a gross profit of at least 40% to 50% on the landed costs seemed possible. The company ordinarily expected a mark-up of 30% on the cost of its imports. If the company contracted in April, 1921, for toys to be delivered in the summer and fall, it ran the risk of having to pay an increased duty which would be prohibitive if the new tariff bill passed without modifications. If the company accepted in advance orders which later it could not fill, it risked creating ill will among its customers.

The Sapulpa Company decided not to send a buyer to Germany nor to make any purchases in Germany in 1921 because it believed the risk of loss through tariff legislation was not justified by the possibility of increased profits. It decided to make its usual purchase of toys manufactured in the United States, and in addition to purchase a small stock of American-made toys in those classes which competed with German goods. The tariff bill later was amended in the Senate so that the drastic valuation clause was omitted and no change was made in the 35% rate of duty on toys at that time. The Tariff Bill, however, was still before the Senate.

9. Manassas Department Store

TIME FOR EUROPEAN TRIP OF HOUSEHOLD GOODS BUYER

The household goods buyer of the Manassas Department Store in New York City had made a yearly trip to European markets since 1900. From 1900 to 1919 he planned his trip over the first week in March during the spring fair at Leipzig. Since the buyer spoke German fluently, he not only visited the fair but also visited the factories. In 1919 he was abroad in March and again in November to investigate conditions following the World War. In 1920, 1921, and 1922 his trips were made in November because he thought that, in view of conditions in those years, purchases could be made more advantageously at that time. On January 17, 1924, he was asked by the general manager of the Manassas Department Store whether he wished to go abroad in March or in November, 1924.

Household goods included all kinds of kitchen ware, such as pots, pans, kettles, cutlery, baskets, novelty chinaware, and wooden ware. Vacuum cleaners, lawn mowers, and sewing machines also were sold but were purchased in domestic markets. In 1923, approximately 10% of sales of household goods was of imported merchandise. During the latter part of his long experience in purchasing in Europe, the buyer had made from 60% to 85% of his purchases in German markets and directly from manufacturers. He believed that the quality of wares produced in Germany was superior to that of other countries. Moreover, after 1922, German prices were lower than those of other markets.

In 1923 the quality of workmanship was deteriorating, doubtless because of unsettled conditions among manufacturers and laborers. German goods of the sort sold in the household goods department, however, still surpassed production in other markets. German manufacturers were skillful in constructing novelty designs. For example, in 1921, the buyer bought a stock of table mats made of glass beads which sold quickly, giving his store an exclusive item not found in other department stores. Buyers whom the store sent to Europe were allowed to purchase only a six months' supply, because demand could not be estimated accurately and it was the policy of the company to keep inventories at a minimum. Orders for supply for the balance of the year were forwarded, on the basis of samples, to the store's foreign buying offices which ordered directly from manufacturers.

The buyer had been to the great fair at Nijni Novgorod in Russia prior to the World War. Since 1919, however, he had gone on trips only to the fairs in London, Leipzig, and Lyons. In 1923 the fair at Nijni Novgorod had been revived, although of far less importance than in pre-war years. The Lyons fair showed splendid displays of French materials but only in unusual French styles. The fair at Leipzig, although primarily for German goods, covered a far greater variety. New ideas, moreover, were presented at the German fairs, whereas materials displayed at Lyons and London showed, in the buyer's opinion, not originality, but copying.

The volume of sales on household goods was greatest in April and May, and in September and October. If the buyer went to

Europe in March, he could observe the variety in the display at the Leipzig fair and the purchases made by other department store buyers who were visiting the market at that time. Purchases could be made in a week directly from samples shown at the fair. In making purchases at the same time when other buyers were contracting for material, there was the disadvantage that the buyer would be competing with those who might be purchasing in larger volume than he; thus he would be unable to secure as satisfactory prices or as good deliveries. Manufacturers in German markets worked from November through February on new designs for presentation at the Leipzig fair but many of them did not display their entire lines. The buyer, therefore, did not have as great a variety to choose from. Less important manufacturers occasionally did not have displays and the buyer had to go directly to their plants.

There were fairs quarterly at Leipzig, but all except the one in March were of little comparative importance to the buyer of the Manassas Department Store. His visits were more satisfactory in November because deliveries on orders placed by buyers at the March fair usually had been completed. The buyer was able to purchase at advantageous prices materials for which the contracts had been canceled. Orders at that time, he believed, were welcomed by the manufacturers because of slackness of demand and manufacturers desired to keep their plants in operation. They were willing to begin production on new designs or, if the buyer liked a product which was being manufactured, they sometimes accepted orders for additional items at less than contract prices because the increased volume meant lower operating costs. In November and December, manufacturers were planning new designs for the March fair and the buyer was able to place exclusive orders in advance.

In January, 1924, American manufacturers began to offer domestic goods at unusually low prices. The buyer attributed this to decreased demand in the United States and believed that he could buy at advantageous prices during the next three months. He had an assistant in the department but did not wish to trust him to make volume purchases during the six weeks of his absence. The buyer had samples of imports which were selling well and could make repeat orders through the foreign buying organization for the heavy sales in September and October. In the

meantime he could be purchasing domestic goods at advantageous prices for the April and May sales. Purchase from samples meant, however, that for a time the buyer would not have the usual novelties which he secured in the German markets.

If he went to Europe in November, the buyer missed the general display obtainable only at the large Leipzig warehouses in March when most American buyers were in Europe. If he made his trip in March, he could place all his orders except for novelty merchandise in a short period of approximately a week at the fair. In order to purchase advantageously in the fall, the entire months of November and December were required instead of the usual six weeks in March and early April. For the person who did not know German and did not buy directly from manufacturers, the buyer believed that March was the best time for a European trip. He decided, however, that for his method of purchasing, November and December offered the greatest opportunities, and the company concluded to send him at that time.

B. QUOTATIONS AND PRICES

10. Dalbere Tea Company

REQUIRING QUOTATIONS IN C.&F. TERMS RATHER THAN C.I.F. TERMS

Since its inception in 1914 the Dalbere Tea Company, import merchants, accepted quotations from the exporters of tea in China and Java on a c.i.f. basis. After six years of experience the company found that there was a risk in accepting foreign exporters' quotations which included insurance. Therefore, when the company was approached in 1920 by the representative of an American insurance company, it considered demanding in the future c.&f. quotations instead of c.i.f.

The Dalbere Tea Company, which maintained its office in New York, sold tea to wholesale grocers and tea and coffee merchants in eastern United States. Its importations had shown a steady increase each year since the organization of the company and were about $150,000 a year after the war. The tea was purchased in shipments averaging in value from $1,000 to $2,000. The terms of payment varied, depending on the exporters' practices, from sight drafts to 90-day drafts. From 60 to 90 days were required

to ship tea from China and Java to the United States. It was necessary for the Dalbere Tea Company to honor the draft on nearly every shipment before it received the merchandise. The company, therefore, had to advance funds which it borrowed from its bank. Samples of the tea were forwarded to the Dalbere Tea Company by the foreign exporters just before the shipment was made so that the salesmen of the Dalbere Tea Company were able to take orders for the sale of tea while the ship was in transit. Payments were made to the Dalbere Tea Company by its customers in 30 days from date of invoice.

Tea was a perishable product since it not only deteriorated with age but was susceptible to damage by sweat and dampness during ocean transportation. During the six years which the company had been importing there had been no total loss of any shipment of tea, but about one in twenty chests was damaged sufficiently to necessitate a claim against the insurance company.

Two or three months usually elapsed before the Dalbere Tea Company received reimbursement for damages to any shipment of tea which had been insured by the exporter in a foreign insurance company. This was likewise true when the policy of the foreign insurance company was marked "payable in New York," because the New York office had to receive the sanction from the home office before any payment could be made. Although the company had suffered no complete loss of shipment, a delay in reimbursement on a total loss probably would embarrass the Dalbere Tea Company financially. It was customary for American insurance companies to settle claims for damage on imported merchandise within two weeks. Therefore, it considered the advisability of insuring its importations of tea with an American insurance company instead of permitting the tea to be insured by the exporter.

An open policy was recommended by the representative of the American insurance company. This policy was one taken out by an importer or exporter to cover all his shipments of merchandise. Such a policy kept the merchant constantly insured, but payment amounting to 1¼% of the insured value of the merchandise was made only on each shipment. An importer notified the insurance company of the value of each importation as soon as possible and later the insurance company verified it with the foreign exporter's

invoice. The importer was insured, nevertheless, whether notification was made to the insurance company or not. There was no time limit on the duration of the policy nor any limit on the part of the world from which the Dalbere Tea Company might import. The special clauses in the open policy regarding importations on tea were to cover "any damage" to merchandise in transit.[1] The general clauses regarding protection in marine insurance policies including open policies and those applying to single shipments were approximately the same for all insurance companies, American and foreign.

An open policy designated a limit to the amount of any one importation. The limit was established by joint agreement of the insurance company and the importer. It took into account the average value of shipments to the importer, thus preventing an unnecessary large amount of an insurance company's reserve from being withheld. Shipments which were larger than the limited amount of the policy required additional insurance in the form of another policy or a flyer to the existing policy.

The Dalbere Tea Company had received policies on different insurance companies from its foreign exporters. It usually did not know how or by what company its importations were insured until it received the policy which was forwarded with the invoice of the merchandise. The company might be one not "authorized" or "admitted" to do business under the insurance laws of the states of the United States and hence having no legal standing in this country. The special clauses in the policies varied with different shipments; but all gave limited protection.[2] There was no clause covering "any damage" in transit. For example, a shipment which was damaged by fire was not covered by the foreign insurance policy. Additional clauses were inserted only at the request of the Dalbere Tea Company and then at an extra charge.

[1] An example of the special clauses of the Open Policy: "To pay average if amounting to 3% on each invoice and/or each 5 chests, 10 half-chests or 20 boxes in order of invoice including mold and dampness caused by sweat and sea water and/or any damage occurring while in transit, also to pay for breakage, reconditioning charges and loss in weight irrespective of franchise, but no claim to attach for any loss due to insufficient or unusual packing including the risk of theft and pilferage."

[2] An example of the special clauses in a typical policy placed by a foreign exporter to cover one shipment: "To pay average on each 10 chests, 20 half-chests, or 40 quarter-chests, running landing numbers, but no claim to attach for wet or damp in respect to any package unless the tea therein shall have been in actual contact with sea and river water."

The cost of insurance placed by foreign exporters was ½ of 1% of the insured value of the merchandise.

Also the foreign exporters were agents for insurance companies and preferred to place the insurance with their own companies. The Dalbere Tea Company had reliance in the integrity of its exporters and the agencies which they represented.

C.i.f. quotations to the importer were less than c.&f. quotations plus insurance placed by the importer. Also, the routine duty of placing the insurance with an American company and notifying the insurance company of the value of each shipment required slightly more clerical work. The Dalbere Tea Company, nevertheless, had the assurance of the American insurance company's representative that less time would be taken in making settlements and that fewer disputes would arise because the clauses in its policy were more complete.

The American insurance company representative stated to the Dalbere Tea Company that American banks frequently hesitated to extend merchandise letters of credit to importers unless the financial standing of the foreign insurance company with whom the policy was placed were known. The Dalbere Tea Company, however, did not consider this fact important because it believed that the bank extended credit on the basis of the importer as a risk and not the insurance company. This difficulty, furthermore, had not been encountered by foreign exporters when they presented the documents to the bank abroad and stated that the importer had insured the shipment.

The Dalbere Tea Company took out an open insurance policy with an American insurance company. A liberal limitation of $25,000 on any one shipment was secured. The rate was ¾ of 1% higher than the foreign insurance rate. The experience of the company from 1920 to 1924 showed that less time had been required in the settlement of damages and that fewer disputes had occurred because of the more complete coverage.

11. Zachary Company

TERMS OF QUOTATIONS ON IMPORTATIONS OF RAISINS

In October, 1924, the Zachary Company, of Boston, learned from a New York importer that the exporter in Malaga, Spain,

from whom both importers had purchased raisins for several years, quoted the latter 19 shillings a box, "c.&f. New York," or 1 shilling a box lower than the "c.&f. Boston" quotation given the Zachary Company. The Zachary Company, through its foreign department, undertook to determine the reason for this difference in prices.

The Zachary Company sold 25% of its domestic and imported groceries at wholesale and 75% at retail. Its total purchases of groceries aggregated $5,000,000, of which about 5% were imported. A foreign department was maintained at the cost of about $9,000 a year.

Most of the raisins imported from Spain were delivered during August and September and were sold by importers between October 1 and January 1. The exporter in Malaga sold 90% of his raisins in the United States. About 4 weeks were required to prepare an order of 2,000 boxes for shipment. It was the practice of the exporter in Malaga to allot each shipment of his raisins to several importers instead of filling the entire order of any one importer. The Zachary Company, therefore, received each order in three or four shipments, usually about a week to 10 days apart. Nearly all the shipments, including those purchased by the Zachary Company, were shipped through New York.

Early in the summer of 1924 the Zachary Company had purchased for delivery in the fall 1,875 twenty-pound boxes of raisins at the price of 20 shillings a box c.&f. Boston. These raisins were to be shipped as soon as they were packed by the Spanish exporter. The company decided to make an analysis of the cost of this shipment, and if the analysis showed that the price had been too high, a request for "f.o.b. Malaga" prices would henceforth be made, rather than a request for reduction in c.&f. prices. This was because the Zachary Company from past experience in dealing with other Spanish exporters believed that, even with a reduction in c.&f. quotations, the exporter was able to profit on freight rates.

Quotations on freight rates secured from several reliable steamship companies whose sailings from Malaga to New York, and from Malaga to Boston via Liverpool, were approximately equal in time and frequency showed the following:

Freight rates on raisins from Malaga to Boston via New York

were from \$0.0075 to \$0.008 a pound. This included a rate of \$0.0025 to \$0.003 from Malaga to New York and \$0.005 a pound by boat from New York to Boston. Rail rates from New York were higher. This did not include, however, cartage or lighterage charges in New York, nor were these charges included in c.&f. quotations.

The rate from Malaga to Boston via Liverpool was \$0.0074 a pound. There was no additional charge for transshipment in Liverpool.

Ocean freight rates usually were established at the beginning of each year and rarely changed during the year. On the basis of these freight rates, the difference between c.&f. quotations made to the New York importer and those to the Zachary Company should be about \$0.005 a pound. The difference between the price quoted to the New York importer and that quoted to the Zachary Company, however, was \$0.011 a pound when the exchange value of the pound sterling was computed at \$4.40. This made a difference of \$0.006 a pound in the quotations of the Malaga exporter to be accounted for.

Freight rates usually had to be paid at the time merchandise was placed on the vessel. If the company shipped all its raisins at one time, it would be necessary to pay freight for them one or two months sooner than when the freight was paid by the exporter. Interest figured at the rate of ½ of 1% a month would increase the landed cost of the raisins only by an amount varying from \$0.0000375 a pound to \$0.000075 a pound.

In an f.o.b. quotation it was understood that the exporter should see that the merchandise was placed on board ship. It would be necessary for the Zachary Company, however, to see that contract for the necessary space on the vessel was made and to provide, by cable or otherwise, for the payment of freight on the day that the merchandise was placed aboard the ship. The exporter would communicate with the importer two or three days in advance to confirm the date of the shipment of the raisins.

The executives of the foreign department believed that the exporter in Malaga might receive quotations on freight rates lower than the usual quoted rates, because he exported raisins in large quantities. He might hesitate consequently to quote f.o.b. if he were securing a profit on freight rates.

Because raisins, nuts, and seasonable fruits were exported in

large quantities in the fall of the year, it might be difficult for the Zachary Company to secure space on ships sailing to New York or Boston unless it made arrangements one or two months in advance. It would be necessary, therefore, to know the exact time the raisins would be ready for shipment from Malaga. If the Zachary Company delayed shipment until its entire purchase was ready, in order to be able to contract for steamship space on a definite date, it might lose an opportunity to sell its raisins during the first part of the selling season.

The executives of the foreign department, nevertheless, believed that if the exporter could be induced to quote f.o.b., he would secure the shipping space just as under the existing arrangement. The Zachary Company would assume the risk of unforeseen delay if the shipment was not ready for the boat. The company, therefore, decided to ask for f.o.b. quotations before placing orders for raisins in 1925.

12. Crandall Company

PRICE LIMITATION ON INSTRUCTIONS TO BUYERS OF FOREIGN MERCHANDISE

The Crandall Company, situated in an eastern seaport, was one of the largest department stores in the United States. The company sent abroad each year 30 or 40 buyers who made purchases amounting to about \$1,250,000. To prevent its buyers from offering imported articles at prices higher than those at which other department stores offered similar articles, the Crandall Company considered establishing price limitations for its buyers of foreign merchandise.

The company imported staple merchandise, style goods, and novelty merchandise. These types of merchandise were classified in two ways: competitive and non-competitive. Competitive merchandise included articles which were similar to those imported for sale by other department stores in the city. In determining its selling prices the Crandall Company took into consideration its competitors' selling prices. Such articles as hosiery, suits, and gloves were included in this class. Non-competitive merchandise included toys and novelties.

Most of the merchandise imported by the Crandall Company

was non-competitive but an increase in foreign buying by retail stores was lessening the quantity of non-competitive merchandise each year. Previous to 1914 the Crandall Company was able to secure, on the average, 10% more net profit on imported merchandise than on domestic merchandise. That figure had decreased steadily until in 1920 and 1921 it was only 2%.

Besides the foreign department within the store which was entirely a clerical department consisting principally of foreign-order, custom-house, and foreign-exchange clerks, the Crandall Company maintained, in conjunction with five other department stores, eight foreign offices the expenses of which were shared equally. These foreign offices furnished buying information to the Crandall Company and the other stores concerning market prices and conditions and the best source from which to procure merchandise. The foreign offices had no power of price limitation over buyers. Assistance was given to the buyers of the Crandall Company's foreign merchandise regarding the routes which they should take after arrival within the country. Arrangements for interpreters were made by these foreign offices. The foreign offices consolidated the purchases of the buyers, took charge of the packing of the merchandise, and shipped it to the United States. They figured, moreover, the percentage to add to the invoice cost in order to determine landed cost of each class of merchandise for each store. There were about 25 such classifications which were determined by the value, size, and perishableness of the article.

The Crandall Company's buyers were trained as stockmen and salesmen in their departments; they were instructed in buying in the company's training course for buyers and acted as assistant buyers before they received the responsibility of buying for departments. Hence, they were qualified to make purchases and their judgment had been tested. A buyer should be able, therefore, to determine the selling prices on the articles of his department because of his complete knowledge of them. He should be able to purchase them at the right prices, furthermore, because he knew the average mark-up for his department and the percentage to be added for packing and transportation. He was expected to watch fluctuations in the exchange value of the money in the country where he was making his purchases. He was to bear in mind also the fact that his own personal traveling

expense ultimately would be charged to his department although no attention was paid to it in the determination of landed costs.

Buyers first estimated the expected sales of foreign merchandise for their departments. From this figure was subtracted the inventory of foreign goods in stock. The resulting figure of the necessary foreign purchases was approved or changed by the merchandise manager in conference with the buyer and the manager of the foreign department before the buyer's trip. The buyer then signed a statement that his total purchases would not exceed this limit. At the same time a suggested itinerary of the countries in which the buyer was to make his purchases was approved. The itinerary could be changed later at the suggestion of the manager of a foreign office, but the purchase limit could not be changed by him. Immediately before going abroad, the buyer visited the New York importers from whom the Crandall Company frequently made purchases and the large retailers of the class of merchandise which he was to buy. In this way the buyer was able to learn its value and popularity.

The Crandall Company placed no other limitation on its buyers. The company noticed that imported merchandise, similar to that which it had been selling, was being offered for sale at lower prices in other stores. The company had been familiar with this fact for several years, but not until 1922 was a method considered by which it could make the selling prices on its foreign articles conform with those of similar articles in other stores. The method considered was to set limits on the prices which foreign buyers should pay for this merchandise.

The existing policy of the company did not provide a check on the price for which goods might be sold. It permitted the buyer to purchase an article on the basis of the probable selling price according to his appraisal value of it. A decrease in the percentage of profit which the company was able to make on imported merchandise over domestic merchandise demonstrated that more information concerning foreign merchandise was being secured by buyers of foreign merchandise and that foreign markets were being exploited to a greater extent than in the past. Some mechanical control over buying, therefore, seemed advisable. Such a control might be exerted by limiting both the quantity of an article to be purchased and the price to be paid for it. This should result in less risk to the company on the purchase of its

merchandise. Finally, price limitations on imported articles should make it easier to control new buyers because the estimate of a buyer's judgment was not always free from error.

Any limitation on the price which a buyer should pay for an article, nevertheless, limited the buyer's judgment. The buyer was present to examine the merchandise and might find it worth slightly more than the price which he had been requested to pay for it. The buyer, moreover, might not find the article he was ordered to purchase at the time he wanted it. Such difficulties would cause more frequent cabling for advice from the home office. If the buyer were unable to purchase a specified article and came back without a substitute article, other stores which did not limit their buyers might gain good-will at the expense of the Crandall Company by importing another article as a substitute. The Crandall Company knew that there were other department stores which placed no limitations on the price which buyers were to pay for their merchandise, because these stores considered that their buyers were familiar enough with their own departments to purchase only merchandise which would yield a profit. They did not consider a man to be a good buyer if he did not take into consideration competition as well as salability of the articles he purchased.

The Crandall Company decided to limit its buyers on the prices to be paid for competitive but not for non-competitive foreign merchandise. From 1922 to 1924 the new policy was deemed successful. The price limitation was set by the merchandise manager of the department for which the buyer was to make purchases. Several new articles had been added to this list of competitive merchandise each year.

13. Grossland Publishing Company

INFLUENCE OF FOREIGN SELLING PRICE IN DETERMINATION OF RETAIL PRICE IN THE UNITED STATES

The Grossland Publishing Company published and imported greeting cards, prints, and books for sale to department stores, bookstores, libraries, and schools. In the fall of 1923, this company and a British company contracted with a printer in France for the exclusive sale of copies of an unbound travel book printed

in English. The contract price was 8 francs a volume, with the value of the franc set at 6 cents for the first order of books. Both the Grossland Publishing Company and the British publisher had agreed not to sell their books directly to any purchaser outside their own countries at the publisher's price.

The books were to be bound in the respective country of each importer. The binding used by the Grossland Publishing Company was to cost 28½ cents a book, while that to be used by the British publisher, not so attractive nor so well suited to the high-grade pages and prints of the contents, was less expensive. The British binding was of coarse cloth and had a flat back. The title was pressed into the cover. The American binding was of a smoother finish; the title on the cover was in gilt letters; and it had a round back, believed by American booksellers to be more substantial. The cost of a binding similar to that of the British book in the United States to the Grossland Publishing Company was about 20 cents a book.

The British publisher decided to sell the book in England at a retail price of 7*s* 6*d*, or $1.65. If the exchange value of a shilling was figured at 22 cents, the British publisher's wholesale price of the book was 5*s*, or $1.10. The Grossland Publishing Company believed that its book, compared to other publications similar in quality and appeal, could be sold by its customers at retail for at least $3. The customary solicitation of the company's customers before marketing the book substantiated this belief. It deliberated whether to set the retail price at the figure suggested by American booksellers or to use the probable American selling price of the British book, if imported by American bookstores, as a basis for the retail price.

Pages instead of the bound book were imported because French book binderies were not equipped to affix cloth covers to their books. Both the Grossland Publishing Company and the British company believed that paper covers such as were used in France would decrease the salability of the book. The Grossland Publishing Company did not wish to have the pages bound in England with the British type of binding. It was preferable, therefore, to import pages rather than the finished book. Also, pages bore a duty of 15% based on actual invoiced cost, whereas finished books were dutiable at 15% of the foreign publisher's wholesale market price. The Grossland Publishing Company, therefore,

could take advantage of any favorable contract price with its printer.

The cost of each book to the Grossland Publishing Company was made up as follows:

TABLE 1

SUBDIVISION OF COST TO GROSSLAND PUBLISHING COMPANY

	(cents)
Printed pages in France	48.
Duty	7.2
Total freight and insurance (landed at port in United States)	11.
Binding in the United States	28.5
Total	94.7

The customary margin of profit for publishers in the United States was approximately 40% of the selling price. If the Grossland Publishing Company based its selling price on this mark-up, therefore, the books could be sold to retailers for $1.60. With the average mark-up of 35% on selling price for retailers of books, the consumer's price could be $2.50.

If a bookstore or buyer in the United States imported the book from Great Britain, the cost for each book was as follows:

TABLE 2

IF PURCHASED BY A BOOKSTORE IN THE UNITED STATES FROM BRITISH BOOKSELLER

Cost of book (7s 6d less 25%, which was the customary wholesale discount given by one retailer to another)	5s 7½d
Duty (based on the market wholesale price established by the British publisher to British booksellers—15% of 5s)	9d
Freight and insurance	7d
Total	6s 11½d or $1.53

TABLE 3

IF PURCHASED BY A CONSUMER IN THE UNITED STATES FROM BRITISH BOOKSELLER

Cost in England	7s 6d
Duty (based on the British publisher's wholesale price—15% of 5 shillings)	9d
Freight and insurance	7d
Total	8s 10d or $1.94

If the Grossland Publishing Company set the retail price at $3, as customers believed practicable, it feared that some of them might purchase the book abroad, since the wholesale price then would be $1.95, that is, $3 less 35%, or about 40 cents more than the price of the British book purchased from a British bookseller at a discount. The book trade did not regard a retail price between $2.50 and $3 as a good book price.

Direct purchase from the British Company might be made by larger book buyers, who maintained purchasing agents abroad. Foreign books were purchased usually in small quantities. It would not be unusual, therefore, for the retailer to import them directly. Although the American binding might be superior to the British binding, the small domestic retailers who were inexperienced in importing books would purchase the book only by name.

A publisher in the United States could not copyright in that country a book printed abroad. Any publisher, consequently, might attempt to print a similar book in the United States. The rotogravure prints of the foreign book could not be reproduced in the United States at the same price, although a book of high quality with the same printed matter might be published to sell at retail for about $2.50.

Other travel books of the same type were sold in the United States for about $5. Past experience indicated that the class of people to whom such a book appealed should be willing to pay a relatively high price. The fact that it was an imported article made possible a higher price than that allowed by the usual mark-up on books. It was not the type of book on which sales might increase through price-cutting.

If the sale of this book were sufficient, the Grossland Publishing Company contemplated publishing a series of 14 travel guide books with the same kind of pages and prints bound similarly. If the Grossland Publishing Company decided to publish the additional volumes, it desired to establish the same retail price for each book in the set. The contract price of 8 francs was for the first book only. Fluctuations in the cost of printing in France and fluctuations in exchange might not permit a contract to be entered into at the same price at a later date.

Inasmuch as the Grossland Publishing Company believed it advisable to set a price proportionate to that of the British publisher, it decided to establish the retail price of $2.50 for the book. The publisher was also influenced in his decision to make the retail price $2.50 by his desire to counteract the impression

that the company handled only very high priced books. He had many books on his list at $25 and $50 and it was generally believed that the company did not handle medium-priced books.

At this price, the number of orders taken from its customers in advance made it necessary to increase the original import order from 750 sets of printed pages to 3,000 sets.

14. Goslin Company

ESTIMATING COSTS OF IMPORTED GOODS IN ORDER TO DETERMINE SELLING PRICE

The Goslin Company, importers of groceries for wholesale and retail distribution, wished to determine whether it could sell in 1924 an importation of high-grade canned French peas at the usual selling price of 35 cents a can. For about 40 years the Goslin Company had imported French peas from a canning company located in the vicinity of Paris. Its purchases averaged 400 or 500 cases a year. Each case weighed 139 pounds and contained 100 cans. The company sold about 75% at wholesale. It obtained a mark-up of about 50% on cost when selling at retail and about 30% on cost when selling at wholesale. The retail price had been 35 cents a can. The Goslin Company maintained it own foreign department at a cost of about $12,000 a year. This department entered all merchandise through customs and made arrangements for purchases from foreign importers. Maintenance of the foreign department was included in the percentage of mark-up added to the cost of the merchandise to determine the selling price.

The Goslin Company placed its orders for canned French peas in June of each year for delivery as soon as possible after that time, usually about the first of September. The French canning company, in April or May, asked for the requirements of its customers for the year, because it canned only the quantity of peas for which it expected to receive orders. Orders varying in size were received by the Goslin Company from its customers throughout the year. Actual deliveries were made between the middle of September and the first of June. Sixty per cent of the peas were sold and delivered between the middle of September and the first of January. About 10% of the wholesale orders were received during July and August. The company sold practically no canned peas at retail during July and August. The company aimed to sell all its French peas before June 1 of the next year since the peas were likely to spoil if kept for more than one year.

Quotations had to be made to the Goslin Company's customers who purchased at wholesale before the peas were received from France; also, the retail price of the canned peas was established before the peas were received in order that the price could be published in the company's price catalog. While neither wholesale nor retail prices were guaranteed against change, the Goslin Company did not like to change them after they were announced. Since the peas were not paid for until 60 days after the presentation of the draft on the Goslin Company, it was necessary that the price for the peas be established with as much care as possible, especially since the product was a competitive one. The Goslin Company purchased all its canned French peas in one order because the peak of the sales was in the fall and because the price of the French canning company was likely to advance after its first orders had been received. A quantity discount of about 1% was given, furthermore, on orders that aggregated 500 cases or more.

In June, 1924, the company received from the French canning company a quotation of 325 francs per case f.o.b. Havre. This price appeared to be favorable as compared with those of other canning companies in France. The size of the pea crop in France and the cost of canning in 1924 appeared to be similar to those of 1922 and 1923. The Goslin Company wished to determine whether the price was low enough for it to sell its peas at the previous price of 35 cents a can retail and 30 cents a can wholesale and obtain the desired profit above the landed costs. The Goslin Company did not favor the plan of having one percentage of mark-up for all its imported merchandise, regardless of its kind or cost. The executives preferred to mark up each product separately on a basis of actual cost, with reference to the salability of the product among the company's customers.

The peas were to be paid for in francs, the exchange value of which was $.0530 at the time the Goslin Company received its quotation from the French canning company. From a study of the fluctuations in francs for a few months previous to the plac-

ing of its order,[1] the executives of the Goslin Company believed that the exchange value of the franc at the date the company would pay the draft for the invoice would not be above $0.0550. An increase in the value of the franc above $0.0530 was expected to occur in July and August, when imports were large and many Americans were traveling in France. If the value of the franc increased above $0.0550, the company still could purchase enough francs to cover its order before the value of the franc reached a point sufficiently high to prevent the sale of the peas at a profit at 35 cents a can. Taking the value of the franc at $0.0550, therefore, the Goslin Company figured the cost of 500 cases of French peas, at 325 francs a case, to be $8,937.50.

The company allowed 1% of the invoice value of the merchandise, $89.38, for insurance, although on the open policy with which the company insured this shipment the actual cost of the premium was only $60. This difference was used in determining the landed cost of the merchandise, to offset incidental expenses which were attributable to the foreign department and which were not included in the $12,000 expended in maintaining that department.

Since there was no direct sailing from Havre to Boston, where the Goslin Company maintained its main office and warehouse, the canning company had to ship its merchandise from Havre to Boston via New York, Antwerp, or Liverpool. The freight rate on canned peas from Havre to Boston through New York was quoted at 135 shillings per 1,000 kilos (2,204.6 pounds); the rate from Havre to Liverpool to Boston at 90 shillings per 1,000 kilos; from Havre to Antwerp to Boston, 80 shillings per 1,000 kilos. The time the shipment would be in transit would be about the same by all three routes; the three steamship companies which gave these quotations, moreover, were equally reliable. Shipment would be made, therefore, via Antwerp.

[1] VALUE OF FRENCH FRANC IN UNITED STATES DOLLARS
*Export Trade and Finance,** Issue of

March 1, 1924	$0.0427
March 15, 1924	.0385
April 5, 1924	.0573
April 19, 1924	.0623
May 3, 1924	.0648
May 17, 1924	.0567
May 31, 1924	.0539

* Closing figures for week preceding the date of publication.

The Goslin Company had to cable enough sterling to pay the freight at the time the merchandise was placed on the vessel at Havre. The company believed that the exchange value of the pound sterling would be no higher than $4.40 on the date at which the freight would have to be paid. The exchange value of the pound sterling on the day the order for the peas was placed with the French canning company was $4.31. Fluctuations for several weeks previous to that date had been slightly below $4.40. With this rate of exchange the company figured the freight rate on this shipment of 69,500 pounds to be $554.75.

Canned peas bore a specific duty of 2 cents a pound. This would increase the cost of this shipment by $1,390. A wharfinger charge of 5 cents a case was placed on importations into Boston, because the wharves were owned by the railroads. If the merchandise was to be shipped to an interior point on the railroad which owned the wharf this charge was not made, but was included in the railroad freight rate. The peas which the Goslin Company imported were taken from the wharf to the warehouse by truck and not by train. A total of these costs, as shown in Table 1, determined the landed cost of the merchandise.

TABLE 1

METHOD OF DETERMINING LANDED COSTS BY ESTIMATING EXCHANGE WHEN PAYMENTS WERE DUE

Invoiced cost (500 cases at 325 francs; estimated value of franc, $0.0550)	$8,937.50	
Insurance (1% of $8,937.50)	89.38	
Freight (estimated value of pound sterling, $4.40)	554.75	
Duty	1,390.00	
Wharfinger charge	25.00	
Total landed cost		$10,996.63
Cost per case		21.99
Cost per can		.22
Retail selling price at the desired 50% mark-up		.33
Actual retail selling price		.35

An analysis of these costs proved to the Goslin Company that it could sell the peas at 35 cents a can retail and 30 cents a can wholesale.

The Goslin Company placed the order for 500 cases at 325 francs a case with the French canning company. The merchandise was shipped on July 20 and was received in Boston on September 15. The draft was presented to the Goslin Company for

payment on August 2. The time which elapsed between July 20 and August 2 was required in forwarding the draft to the importer. The exchange value of the franc on October 2, the day the 60-day draft was paid, was $0.0527. The exchange value of the pound sterling on the day the freight was paid from Havre was $4.36. The actual cost of the peas after payment had been made is shown in Table 2.

TABLE 2

ACTUAL COST TO THE GOSLIN COMPANY OF ITS IMPORTATION OF CANNED PEAS

Invoiced cost (value of the franc, $0.0527)	$8,563.75	
Insurance (1% of $8,417.50, which was the valuation of the merchandise insured at its franc value of $0.0518 on July 15)	84.18	
Freight (at the rate of sterling, $4.369, on July 15)	550.84	
Duty	1,390.00	
Wharfinger charge	25.00	
Total landed cost		$10,613.77
Cost per case		21.22
Cost per can		.212

The Goslin Company sold its 1924 importation of peas at 35 cents a can, although it would have obtained the desired profit if it sold them at 33 or 34 cents a can. It adhered to this price because competitors sold similar grades of canned French peas for 35 cents a can, and it wished to set the price at the nearest multiple of 5 rather than at 33 cents.

15. OBERLANDER COCOA COMPANY

EFFECT OF INCREASED RATE OF DUTY ON SELLING PRICE AND ADVERTISING POLICY

The Oberlander Cocoa Company, located in New York, was the exclusive sales agency in the United States for a high-grade unsweetened cocoa purchased from one of the larger manufacturers in Holland. The company's purchases, aggregating several hundred thousand dollars, were constant throughout the year. Sales were made mostly to wholesale and large retail grocery companies and a few manufacturers of high-grade confectionery. The company handled no other product. The company maintained salesmen who traveled in the district east of Chicago and north of Washington. Until 1910 the Oberlander Cocoa Company had

advertised its product in the daily papers of New York, Boston, and other large cities, in medical journals, and in *Printers' Ink.* Newspaper and national magazine advertising had been discontinued in that year, but advertising in trade journals and by means of circular letters to merchants who sold cocoa was continued. In late 1922 the company considered changing the selling price of its cocoa in order to meet an increase in the tariff rate which went into effect in September, 1922.

The cocoa had the reputation of being one of the highest grades of cocoa sold in the United States. It was packed for sale only under the Dutch manufacturer's brand name. The retail selling price was 35 cents for a half-pound can, the common size of cocoa container for sale at retail. The retail price had remained about the same for 10 years except for a period during the World War when no cocoa was imported by the Oberlander Cocoa Company and retail merchants raised the prices on their stocks. Other imported cocoas also sold for about 35 cents a can but were not so well known and were not sold in such large volume as the product of the Oberlander Cocoa Company. The average price of domestic cocoa in the United States was from 15 to 20 cents for a half-pound can. The cocoa which the Oberlander Cocoa Company imported was known as Dutch Process cocoa. The formula never had been copied, although frequent attempts had been made to imitate it, and a few manufacturers of cocoa in the United States advertised that they manufactured Dutch Process cocoa. The Oberlander Cocoa Company maintained that a can of its cocoa produced more than twice as many cups of cocoa as a can of the low-grade product. The principal reason for the difference in price between the cheap and high-grade cocoas was in the selection of the cocoa beans, which varied in price from 3 or 4 cents a pound to about 30 cents a pound in extreme cases, and in the manufacturing process.

Cocoa and chocolate were used more extensively as beverages in Europe than in the United States. The demand in Europe was for the high grades of cocoa and most of the cocoa manufactured in Europe was of high quality. Cocoa manufacturers in Holland would not manufacture cheap cocoa to be sold only in the United States. Cocoa was not such a popular beverage as coffee in the United States. It was used more because of its nutriment and was prepared largely for children. The principal selling point

used by most manufacturers and wholesalers of cocoa was price instead of quality. Since coffee was the popular beverage, it was thought that the market in the United States could be increased more easily for cheap cocoa than for the more expensive grades. Retailers made a larger percentage of profit per can, and had a larger volume of sales from the cheaper grades of cocoa than from the high-grade cocoa.

Cocoa beans were imported into the United States free of duty in large quantities for the manufacture of cocoa and chocolate. The tariff on manufactured unsweetened cocoa was 8% ad valorem under the Tariff Act of 1913. In the Tariff Act of 1922, the duty on manufactured cocoa was increased to 17½% ad valorem with a 2 cents a pound minimum. Cocoa beans remained on the free list as before. The payment of a higher duty could not be assumed by the company without an elimination of some of the company's selling expenses or an increase in the selling price.

Under the tariff of 1922, American manufacturers whose cocoa could be purchased for less than 12 cents a pound were protected because the 2 cents a pound minimum duty was high enough to exclude cheaper grades of cocoa. Since the cocoa which the Oberlander Cocoa Company imported cost from 30 to 35 cents a pound, the duty which had to be paid raised the cost from 2½ to 3½ cents a can above the cost under the 1913 tariff.

The manufacturer in Holland who produced the cocoa which the Oberlander Cocoa Company sold could not be induced to establish a factory in the United States because he was not dependent upon the American market for the sale of his product. The cost would have been about $150,000. The manufacturer, furthermore, would not allow the formula to be used by an American cocoa manufacturer who might produce cocoa under the brand name of the Holland company in the United States for the Oberlander Cocoa Company. The manufacturer in Holland was not willing to pack the cocoa in a smaller size tin in order that the price of his cocoa might be more nearly comparable with that of American manufacturers. The executives of the Oberlander Cocoa Company did not wish to sell other products with cocoa in order to reduce their selling expense.

The Oberlander Cocoa Company had to decide what policy it should pursue to maintain sales under the new tariff. If grocers were to sell at the 35 cents retail price, the Oberlander Cocoa Company would have to continue to bear all the cost of the duty. The executives believed that the retail price of 35 cents was high enough and that retailers could not sell the Oberlander Cocoa Company's cocoa if the duty were added to the cost.

The Oberlander Cocoa Company noted that the increase in duty would be about equal to the amount of the company's advertising expenditure for the year if the company imported in the same volume as it had been doing during the past few years. If the company discontinued all its advertising, it could continue its sales only through direct sales effort. The Oberlander Cocoa Company decided to retain the existing selling price and to discontinue advertising.

C. PURCHASE CONTRACTS

16. H. A. Johnson Company

DECISION TO AGREE TO THE NEW DRIED FRUIT ASSOCIATION STANDARD FOR SHELLED WALNUTS

The H. A. Johnson Company, of Boston, are importers, manufacturers, and distributors of raw materials used by manufacturing bakers and confectioners. Their principal products consist of dried and preserved fruits, fruit juices, nuts, egg products, vanilla beans, and mechanical equipment for bakeries and confectioneries. Imported products contribute perhaps 30% of the total purchases of the company. The company's main office, factory, and warehouses are in Boston. The company also has small manufacturing plants in other cities of New England and on Prince Edward Island. A branch sales house and warehouse is maintained in New York City for handling the trade of the New York metropolitan area. The company's salesmen from Boston cover all of the New England states, New York, Pennsylvania, and the southern states. Only a relatively small amount of business is done in the West, principally by mail order and through brokers.

Shelled walnuts, which constitute one of the chief imports of the company, are purchased through New York and Boston brokers who represent foreign shippers. Shelled walnuts are imported chiefly from France. Importations are made directly

from the shippers on c.&f. terms, under 90-day letters of credit in francs. Importers of shelled walnuts from France have had great difficulty in getting satisfactory quality during and since the war. Many of the French shippers are small, not of high financial standing, and in many cases unreliable. Importers after opening an irrevocable letter of credit had no assurance that the importations would be up to quality. If goods were not up to standard, redress was difficult to obtain and, if legal measures were taken, expensive as well. Conditions were worse after the war than before and seemed to be getting still worse, largely due to the fact that many new and small shippers in France had come into the business.

Early in September, 1925, the H. A. Johnson Company received a letter from the president of the Dried Fruit Association of New York urging the H. A. Johnson Company to join the association and to agree to a new standard to govern imports of shelled walnuts. The Dried Fruit Association of New York consisted principally of New York importers and brokers of nuts and dried fruits. The association had appointed a "Committee on Walnuts" to investigate the unsatisfactory conditions in the trade in French walnuts and to make recommendations. The committee's recommendation for remedying the situation was a new standard form of contract which was adopted in May, 1925, by the association under the name "New D. F. A. Standard for Shelled Walnuts." It laid down specific and rigid rules as to quality standards for various types of walnuts imported from France.

It also provided for new terms for issuing letters of credit, as follows: "Letters of credit for imports of walnuts shall be opened for 100% available by two drafts as follows: One for 85% of the full invoice value, to be accepted unconditionally on presentation of documents, payable 90 days after presentation. The second draft for 15% of invoice value, to be accepted, due the same day as the first draft of 85% is due, as follows: (*a*) Upon notification by the importer that the goods after arrival and examination have been found satisfactory. (*b*) If the importer does not notify the bank and does not produce documents within 50 days after acceptance of original draft for 85%, the second draft for 15% is to be accepted unconditionally by the bank. (*c*) In case quality and/or weight of shipment are not satisfactory, the second draft for 15% is to be accepted less the deduction agreed upon either by adjustment between importer and shipper directly or through the agent of the broker, or in case no agreement can thus be reached, by Dried Fruit Association of New York or Dried and Canned Fruit Association of Chicago arbitration, such arbitration award to be final."

The successful issue of the committee's recommendation depended on securing an agreement to the new standard by the three groups concerned: the importers, the brokers, and the French shippers. No difficulties were encountered in securing the agreement of the New York City importers. The New York brokers at first refused to agree but later accepted the terms on condition that all imports of French shelled walnuts should be bought by importers through brokers; in no case direct from the shippers. The foreign shippers, however, while agreeing to the standards as to quality, refused to accept the letter-of-credit terms. At a meeting of the shippers at Bordeaux, France, on July 23, 1925, much opposition was expressed to the plan, but there was no unanimous agreement among French shippers in regard to agreeing to, or to rejecting, the terms.

The Dried Fruit Association then attempted to bring pressure to bear upon the French shippers by securing the cooperation of importers and brokers in cities other than New York. Hence the appeal in September to the H. A. Johnson Company to join the association and to agree to the new standard. The officials of the Dried Fruit Association apparently thought that if importers in cities other than New York did not agree to the standard the plan would not work, since walnuts might come into New York through Boston, Chicago, or Philadelphia importers who were not members of the association. On the other hand, if all importers of the United States agreed to the standard, the shippers might be forced to accept the terms. At the same time, the association secured the agreement of New York brokers not to deal with French shippers who refused to accept the standard.

The H. A. Johnson Company decided to join the association at once both because it was doing business in New York and because it wished to keep informed as to developments in the trade. The company, however, refused to sign the standard

agreement. The refusal to sign the agreement was based upon the following reasons: (1) Since most of the nut importers were localized in one section of New York City they frequently could get together formally or informally and would thus have many advantages over a Boston importer who could not keep himself so closely in touch with New York market conditions. Furthermore, the chairman of the committee on walnuts of the D. F. A. was head of a large New York firm which was one of the chief competitors of the H. A. Johnson Company. (2) In Boston there were only a few brokers handling nuts and hence only a few French shippers represented. None of the French shippers who had agreed to the standard terms were represented by Boston brokers; hence, the H. A. Johnson Company felt that it might be necessary for them to buy only through New York brokers if they agreed to the standard. This they believed would be a competitive disadvantage. (3) The H. A. Johnson Company had had satisfactory dealings with some of the French shippers who refused to accept the letter of credit terms and they did not feel justified in refusing to deal further with them. (4) The principal competitor of the H. A. Johnson Company in Boston refused to agree to the standard terms.

In spite of the H. A. Johnson Company's refusal to agree to the standard in September, the Dried Fruit Association continued to send the company's officials information on the developments and to urge them to join. On October 14 it was reported that 14 French firms had agreed to do business on the new standard. By December still other French shippers had agreed—among them 3 of those represented by the Boston brokers. Furthermore, Boston brokers had taken on some French shippers who had agreed to the terms.

Several importers in Boston had reported during November and December several arrivals of poor-quality nuts. One of the H. A. Johnson Company officials expressed the opinion that French exporters apparently were regarding the Boston market as an inferior one, since Boston importers were not agreeing to the new standard. He further pointed out, as reenforcing his opinion, the fact that Boston had for a long time been a noted market for inferior "Manchurian" walnuts from China.

During November and December it was found that New York

members of the Dried Fruit Association were beginning to feature in their price lists the "New D. F. A. Standard Quality." The H. A. Johnson Company's salesmen were having difficulty in explaining to their customers why the H. A. Johnson Company was not likewise offering such standard quality.

In view of these conditions, therefore, the officials of the H. A. Johnson Company late in December again considered whether or not they should agree to the new standard. Their chief Boston competitor still refused to join the association and only three of the six French concerns represented by Boston brokers in September had agreed to the new terms. Boston brokers, however, had taken on new shippers who had agreed to the terms.

On December 21 the H. A. Johnson Company signed the new standard, whereby the company agreed to open letters of credit payable in two drafts. This meant that the company would not henceforth deal with French shippers who refused to accept the new standard.

17. Vanton Confectionery Company

CONTRACT TERMS AS AFFECTING PAYMENT UNDER A LETTER OF CREDIT

The Vanton Confectionery Company, located in Savannah, used large quantities of white sugar. During the first months of 1920 there was doubt in the United States whether or not available supplies would be sufficient for the year. There were continued predictions of the failure of the Cuban sugar crop and Cuba was making large future sales to Europe. Moreover, there was uncertainty as to the continuance of government control of sugar, which had begun in 1918. As a result of these considerations, the demand for sugar was keen. Refiners and manufacturers were buying for immediate requirements and for future delivery.

In May, 1920, the Vanton Confectionery Company contracted to buy from the Andersen Company, of New York City, 75 tons of white sugar. The Andersen Company was a New York importing firm which bought sugar principally from Java and resold it to refiners and manufacturers in the United States. The contract of sale is given on the following page.

New York, N. Y.
May 8, 1920

SOLD TO: The Vanton Confectionery Company, Savannah, Georgia, 75 (seventy-five) tons of 2,240 lbs. *White Java Sugar,* quality equal or superior to Dutch Standard No. 25, packed in bags of about 224 pounds each.

At twenty-two and three-quarters cents (22¾ cents), duty paid, ex-ship New York, net landed weights.

Shipment to be made July-August by steamer to New York.

Payment. Buyer to open immediately irrevocable bank credit for approximate value in favor of Andersen Company, payable against shipping documents.

It is understood that *force majeure* conditions are to apply to this contract. No arrival no sale.

ACCEPTED: ANDERSEN COMPANY
By
J. E. BROWN

ACCEPTED: THE VANTON CONFECTIONERY COMPANY
By
A. M. WHITE
President

After both parties had signed this contract, the Vanton Confectionery Company requested its bank in Savannah to open a letter of credit in favor of the Andersen Company. The following correspondence ensued:

(From the Bank of Savannah to the Asiatic Bank of New York.)

Savannah, Georgia
May 11, 1920

The Asiatic Bank,
New York, N. Y.

GENTLEMEN:

Please open a confirmed documentary credit on New York, N. Y., for account of the Vanton Confectionery Company, not to exceed the sum of Thirty-eight Thousand Dollars ($38,000.)[1] in favor of Andersen Company, available by drafts drawn at sight, covering shipments of 75 tons (of 2,240 lbs.) White Java Sugar at 22¾ cents a pound, duty paid, shipment to be made during July and August to ex-ship New York, against delivery of the following documents—regular shipping documents. Credit to be made available until October 31, 1920.

[1] The usual practice in a transaction of this kind is to open a credit in round numbers to the nearest thousand.

Kindly notify Andersen Company that this credit has been opened and also kindly advise us that you have complied with our request.

Thanking you in anticipation, we are

Very truly yours,
J. S. ASH
Assistant Cashier

(From the Asiatic Bank of New York to the Andersen Company.)

New York, N. Y.
May 12, 1920

Andersen Company,
New York, N. Y.

GENTLEMEN:

Confirming our telephone conversation of even date would say that the Bank of Savannah, Savannah, Georgia, has opened confirmed documentary credit in your favor for $38,000 for account of the Vanton Confectionery Company, available by drafts at sight covering shipments of 75 tons, 2,240 lbs. each, White Java Sugar, shipment to be made during July and August to ex-ship New York. Documents required:

Regular shipping documents, credit to be available until October 31.

We would call your attention to the fact that sight drafts ought to be drawn upon the Bank of Savannah, Savannah, Georgia, and are to state specifically that they are drawn under the Bank of Savannah's letter of credit dated May 11.

We shall be pleased to negotiate drafts when so drawn.

Yours very truly,
A. B. BUDD
Assistant Cashier

(From the Asiatic Bank of New York to the Bank of Savannah.)

New York, N. Y.
May 12, 1920

Bank of Savannah,
Savannah, Georgia

GENTLEMEN:

Your letter dated May 11 received re: Commercial Letter of Credit for $38,000 in favor of Andersen Company, and have carefully noted contents.

For your information would say that we have notified Andersen Company of the opening of this credit and also the terms of the same.

Yours very truly,
A. B. BUDD

With the approach of the summer of 1920, it became apparent that supplies of sugar in the United States were going to be more plentiful than had been supposed. The efforts to tap every source of supply resulted in sugar imports that exceeded the demand. The result of this influx was a break in prices, and during July and August, 1920, there was a marked drop in the market price of sugar to approximately 9 cents. Most contracts for sale made during the early months of the year had called for prices ranging between 22 and 23 cents a pound. This difference caused a widespread effort by purchasers to avoid meeting their contracts. Throughout the United States came reports of cancelations and repudiations on the part of buyers.

As a regular importer of sugar, the Andersen Company had contracted for numerous shipments from Java and other sources and these shipments were arriving every month. In September, the Andersen Company notified the Vanton Confectionery Company that the 75 tons of sugar provided for by the contract of May 8 had been shipped from Java by the S.S. Atreus and would be delivered on the arrival of that steamer in New York, sometime in October. The Andersen Company later found that, in all probability, the S.S. Atreus would not arrive in New York until early in November. The Atreus was a slow boat and had been held up by stormy weather. The contract between the Andersen Company and the Vanton Confectionery Company did not call for delivery in New York at a specified time but merely stipulated shipment between July and August. The Andersen Company, therefore, considered asking the Vanton Confectionery Company to extend from October 31 the expiry date of the letter of credit. With the widespread epidemic of cancelations, however, the Andersen Company believed that the Vanton Confectionery Company might not wish to arrange such an extension and that difficulties might follow such a request. The Andersen Company, accordingly, purchased in the New York market 75 tons of sugar, of the grade and quality specified in the contract, which actually had been shipped from Java within the period specified in the contract. This transaction was, therefore, within the terms of the contract of May 8. The Andersen Company shipped the sugar by rail to Savannah and secured the railroad bill of lading which accompanied the shipment.

This final transaction occurred during the last week in October, and on October 30, which was the final day of the letter of credit, since October 31 fell on Sunday, the Andersen Company went to the Asiatic Bank with the railroad bill of lading for the shipment of the 75 tons of sugar and with sight drafts drawn on the Bank of Savannah. In a transaction of this kind covered by a sales contract specifying shipment from Java and figuring the purchase price "ex-ship" (see contract above) it was unusual to expect payment on presentation of a railroad bill of lading. Ordinarily, under such a contract, the documents expected would be an ocean bill of lading and marine insurance certificate. In order to insure its position, therefore, the Asiatic Bank insisted on a statement from the Andersen Company to the effect that the sugar had been shipped from Java in accordance with the terms of the contract. This statement was forthcoming and the Asiatic Bank honored the draft and debited the account of the Bank of Savannah.

Although willing to meet its obligations, the Vanton Confectionery Company was ready to take advantage of any technical objection in order to avoid fulfilling its contract. The company, therefore, refused to take delivery of the sugar and notified the Andersen Company to that effect. Subsequently, however, the Vanton Confectionery Company took delivery of the sugar in order to prevent spoilage and sold the sugar at the current market price. The company credited the proceeds of its claim against the banks and the Andersen Company.

The terms of the original contract fixed the price ex-ship New York and also included the clause "no arrival—no sale." The Vanton Confectionery Company was of the opinion that the Andersen Company could have avoided the contract by establishing the non-arrival of sugar purchased for application on the contract, and need not have purchased sugar in the open market to make good the delivery. It was a question whether or not such delivery constituted "delivery ex-ship." The Vanton Confectionery Company examined the correspondence between the two banks and concluded that neither bank had opened a letter of credit. The Bank of Savannah had asked the Asiatic Bank of New York to open a credit and the latter bank had written to the Andersen Company that the Bank of Savannah had opened a credit.

In response to a request from the Vanton Confectionery Company, the Bank of Savannah honored the debit of the Asiatic Bank of New York but challenged the right of that bank to pay $38,000 on the drafts drawn by the Andersen Company. The Bank of Savannah brought an action at law against the Asiatic Bank of New York for the wrongful payment of the amount. The basis of the action was that the sugar had not been delivered in accordance with the terms of the contract and that the communication from the Bank of Savannah was not sufficient to open a letter of credit. Questions and answers were filed by both parties to the action, and efforts were made by attorneys on both sides to adjust the matter without a trial. At the end of two years the case was still pending.

In 1924 it was probable that the action would be withdrawn. The Bank of Savannah believed that the action was well grounded technically, but the bank realized the importance attached by the commercial world to any communications between banks, and was ready to believe that performance promised in such communications should be guaranteed even in the face of objections technically sound. On this settlement, the actual loser financially would be the Vanton Confectionery Company, which would pay the contract price for sugar which it had resold at a much lower figure.

XII

FINANCING IMPORT TRANSACTIONS

A. METHODS OF PAYMENT

1. Keezel Spice Company

METHOD OF PAYMENT FOR IMPORT FROM THE FAR EAST

The Keezel Spice Company, an established importer and distributor of spices, purchased its raw material either directly from producers or through producers' agents or brokers in New York. In March, 1924, the company was offered through the Summer Company, agent in the United States for a Batavian producer, 600 bales of Number 1 Batavian cassia at a satisfactory price. The cassia was to be shipped from Batavia, in May, June, or July. The price quoted was slightly in excess of $100 a bale, which was lower than that of competitors. The terms desired were a four months' letter of credit in dollar exchange. It ordinarily required from 70 to 80 days for merchandise to arrive from Batavia. As was customary in the trade, it was necessary for the president of the Keezel Spice Company to accept this offer within 24 hours, or the Summer Company would be at liberty to make the same offer to another company. During the 10 years in which the Keezel Spice Company had purchased supplies from this producer he never had failed to abide by his contracts.

There were three methods which the company would consider in paying for its imported merchandise. The first was cash against documents; the second was payment after the merchandise was inspected in the American port by the Bureau of Chemistry of the United States Government; and the third was by a letter of credit, the method offered by the Summer Company.

The Keezel Spice Company preferred cash against documents if the payment was $2,000 or less, because it was the cheapest method of payment. A letter of credit cost the company from ⅛ to ½ of 1%, the rate varying with the country of payment and the duration of the letter. If the company paid for its pur-

chases by cash against documents, it not only saved the charges of the letter of credit and the cost of cabling the credit, but it also secured its products at a lower cost, for the seller could afford to sell cheaper if he received payment promptly or could discount sight drafts. The company had paid cash against documents for purchases of more than $2,000 when requested by a responsible seller. Since the chief disadvantage of this method was the risk that quality would not be up to specifications, $2,000 had been established as an arbitrary limit to the amount which the company would risk on cash transactions.

There were three disadvantages to the use of cash against documents. A dishonest shipper could pack any grade of the product ordered and claim that it was the merchandise ordered. After the purchaser had paid for it, he had no recourse.

Documents often were sent by a mail steamer rather than by the freight steamer which carried the merchandise. The documents arrived, therefore, in the United States from a month to six weeks before the merchandise and were presented for payment. This circumstance was not important for purchases made in Europe, for it frequently happened that the merchandise arrived in the United States before the documents. This difference was caused by the more frequent services and the direct routes of the vessels from Europe together with their greater speed.

Another disadvantage to paying cash against documents for purchases in Asia had developed from the necessity of reloading the merchandise. Merchandise purchased in Celebes, for instance, was shipped to Batavia upon a slow local vessel and from there reshipped to the United States whenever an ocean-going steamer in port could carry the extra cargo. Because of the slowness with which the local vessel proceeded from port to port, and because of the indefiniteness with which connections could be made at Batavia, a month might elapse after the purchase was made before the merchandise was shipped from Batavia. The shipper in Celebes received documents from the agents of the local shipping company, attached a draft to them, and sent them at once to the United States. On one occasion, the company made a payment in the United States for merchandise which had not yet been loaded in the vessel at Batavia. Although the company thereafter demanded from the shipper that no documents should

be dispatched until the merchandise had been loaded at Batavia, it had no means of enforcing the demand.

When the company had paid for its merchandise before it had been shipped, it had been customary to institute a claim against the shipper in the foreign country for ½ of 1% of the cost of the merchandise for each month that payment had been made in advance. Although the Keezel Spice Company ordinarily obtained the refund when the shipper was responsible, the procedure was costly and inconvenient. If the company doubted the validity of the documents presented to it, it was impracticable to reject them temporarily, for the bank which presented them would return them at once to the seller. If, then, the merchandise arrived in the United States prior to the return of the documents by the seller, the merchandise would be placed by the United States Government in the General Orders Store.

The second method of payment, that of cash after inspection by the American Government, was used infrequently by the company. Inspection by the Bureau of Chemistry for spices entering America was required by the Pure Food Laws. This method of payment was used especially in the purchase of mustard seed from China and anise seed from France, the quality of which varied so greatly that the company would not make arrangements for payment until the merchandise had been admitted by the government. The Batavian cassia was comparatively uniform. The company also used the method of payment after inspection when it purchased from a strange or unreliable company so that it would not have to secure a rebate if the merchandise delivered did not meet the requirements specified in the contract. The policy of the company, however, was to purchase only under unusual circumstances from companies which it could not trust or did not know.

The third method of payment, that by a letter of credit, was the method generally used by the company and the one which it desired to standardize for large purchases. It was the opinion of the company, however, that the letter of credit should be used only when the reliability of the shipper was known, because the purchaser had to depend on the shipper's word for the quality of merchandise. The banks in the country of the producer checked the quantity called for by the letter of credit with that

signified in the shipping documents, but not the quality called for in the order.

If the Keezel Spice Company should decide to pay by a four months' letter of credit, its bank would charge for its services ½ of 1%. The expiration date signified the last day on which the shipper could draw a draft against the letter of credit. After that date, a new letter became necessary. The Keezel Spice Company ordinarily gave the shipper one month longer in which to draw his draft than the period specified in the contract for the shipment of merchandise in order to allow for unforeseen circumstances. After the merchandise had been loaded, the shipper took the bill of lading, the consular invoice, and the insurance papers to his bank, which would accept a draft drawn by the shipper to cover the cost of the merchandise plus the full amount of the freight and insurance, and interest to cover the period between the sending of the draft and the receipt of the money. The bank sent the papers to its correspondent in the United States. Under the letter of credit, the importer agreed with his bank that the funds received from the sale of the product would be used to meet the draft when it became due. The four months' draft desired by the producer would enable the Keezel Spice Company to receive the merchandise, to dispose of it to its customers, and so to meet the draft when due.

Although previous to the World War the Keezel Spice Company had purchased its credit in pounds sterling, during and after the World War it used dollar exchange. The change had been made because sellers preferred dollars to the less stable sterling, and the Keezel Spice Company preferred it because it entailed no speculation in exchange.

Whenever the Keezel Spice Company had not been satisfied with terms offered, it had cabled a counter-offer, adding or subtracting, according as the terms were lengthened or shortened, ½ of 1% of the amount involved for each month by which the offer was changed. That is, if it had sufficient funds to meet the payment of the draft in 90 days and the seller had asked for 4 months, it would cable the producer an offer amounting to a reduction of ½ of 1% of the cost of the merchandise.

If the payment to the Batavian producer should be made by a letter of credit, the expense of cabling such credit would be $20. In this case, however, credit could be taken out in favor of Summer Company, which would assume the expense for the transmission of the funds to the producer. Because of the advantages of the letter of credit and because the company desired to adopt this method as standard, the executives decided to accept the terms proposed for the purchase of the Batavia cassia.

2. Towneur Wool Company

SELECTING THE METHOD OF FINANCING IMPORTS FROM AUSTRALIA

The Towneur Wool Company, established in 1908, sold annually from 8,000,000 to 10,000,000 pounds of wool, of which about 15% was imported from Australia. The company had at all times, as was customary in the trade, financed its wool purchases by buying from an American bank confirmed, irrevocable, 90-day, sterling letters of credit in favor of the Australian shipper. In order that the Australian shipper might secure the full amount of the purchase price agreed upon, the Towneur Wool Company allowed the shipper to draw a draft for an amount equal to the cost of the wool purchased plus the amount charged the shipper by the Australian bank for discounting the draft. After the wool buying season opened on September 15, 1923, the Towneur Wool Company, as was its custom, purchased a 90-day sterling letter of credit for £10,000 against which drafts were drawn by the shipper as the wool was purchased at the auctions and shipped.

On March 22, 1924, the company again entered the market for the purchase of additional wool to the value of about £25,000. The discount rates upon 90-day drafts in Australia had risen from 2⅞%, or 11½% per annum, in September, 1923, to 3⅝%, or 14½% per annum, in March, 1924. This increased the cost of financing the imports. The company, therefore, investigated the possibility of finding a cheap method of financing.

Table 1 shows the discount rates of drafts in Australia for periods indicated.

In purchasing a confirmed irrevocable letter of credit, the Towneur Wool Company agreed not to revoke the credit under any condition. The American bank agreed that its London correspondent would notify the Australian wool shipper confirming

TABLE I

VALUE IN AUSTRALIA OF £100 DRAFT ON LONDON

	September 15, 1921	September 15, 1922	September 15, 1923	March 22, 1924
Demand draft	£100⅜	£99¾	£98⅜	£97⅝
30-day draft	99¾	98⅜	98	97¼
60-day draft	99⅓	98	97⅝	96⅝
90-day draft	98½	97½	97⅛	96⅜

the opening of the credit in his favor in America. Under the agreement between the Towneur Wool Company and its bank, the wool was consigned to the bank. The bank, upon receipt of the shipping documents, delivered them to the importer in exchange for a "trust receipt." This provided that the funds received from the sale of the wool would be applied immediately by the Towneur Wool Company toward the liquidation of its debt to the bank incurred by the drafts drawn under the letter of credit.

The use of sterling credit in Australia had become established largely through the refusal of the six large Australian banks[1] to carry balances for American banks because of their desire to eliminate competition. This made it difficult to use dollar credits or to transact business directly with Australia without a London bank as an intermediary.

Although the discount on drafts drawn under 30- and 60-day letters of credit was less than that upon drafts drawn under a 90-day credit, the company preferred to be financed for the customary 90 days. The wool was sold customarily either before its arrival in the United States or within 30 days thereafter. Payment ordinarily was received by the United States wool merchants within 10 days after the delivery of the wool. Since it required from 45 to 60 days for Australian wool to arrive in the United States, a credit shorter than 90 days would not permit the company to receive the funds from the sale of the wool with which to meet the draft. Under a 90-day draft the company was financed for 4 months, since the draft did not become due until 90 days after its acceptance in London, which was customarily

[1] Union Bank of Australia; Commercial Banking Company of Sidney; Bank of New South Wales; Bank of Australasia; Bank of New Zealand; English-Scottish & Australian Banking Company, Limited.

a month after the date of sale in Australia. The delay was caused by the time necessary for the assembling and loading of the wool and for the mail to reach England.

The company was informed by its banker that there were three possible methods, in addition to the usual 90-day letter of credit, which might be used for financing its wool purchases.

Cash deposit in London. One method was to deposit funds in London against which sight bills would be drawn by the Australian shipper and sold in Australia at the time of shipment. The Australian shipper would receive payment upon presentation of draft and documents to his banker. In order to pay for the wool by sight-draft payment, the London banks required that the funds for meeting the draft be deposited in London at the time the wool was purchased. Interest at the rate of 2% per annum was paid upon these funds by the bank during the time, ordinarily one month, that they were in the bank.

Cash payment in Australia. A second method of financing was for the buyer to cause the transfer of funds by cable to Australia at the time that the wool was purchased. It was necessary to cable the funds to the London bank which in turn recabled them to Australia. The Australian bank was instructed in the cable to pay the funds to the wool shipper upon the presentation by him of the shipping documents. It was not necessary for the wool shipper to draw a draft against the American importer. In making its charges, the bank treated this method as if it were documentary payment, the commission on which was less than on a letter of credit.

cable cost

comm less

There were two considerations which the company had to take into account under either a cable transfer of funds to Australia or cash deposit in London. The Towneur Wool Company did not have so strong an opportunity for legal recourse against the banks in case of error upon the banks' part as it had when the banks were instructed under the established method of financing by means of a letter of credit. In other words, the company was more dependent upon the integrity of the Australian bank. Because of the association of the Australian banks with the London banks, the Towneur Wool Company believed them to be of high standing. The service which they had given in the past had

been satisfactory. Since both these methods required that funds be advanced at the time the wool was purchased, the true cost could not be determined unless interest at the rate of 6% were charged upon the funds advanced in addition to the bank charges.

Importer's acceptance credit. The third method suggested by the banker was a letter of credit under which a draft would be drawn by the shipper in Australia, payable upon sight in London. Funds for the payment of this draft, however, were to be secured by the importer by refinancing in the United States through the sale of a 90-day bankers' acceptance. That is, the American importer would obtain the funds necessary to pay the sight draft due in London by drawing a 90-day draft upon his American bank. The bank would accept this draft which then could be sold in the open market at the prevailing rate for bankers' acceptances and the proceeds used to meet the payment of the Australian draft in London. Since it takes the draft 30 days to reach London from Australia, it would be necessary in this method for the bank to purchase 30-day sterling in placing funds in London.

At the time the method of financing was under consideration in March, 1924, banker's commission upon a 90-day sterling letter of credit was 3/8 of 1%, and upon a 30-day letter of credit, 1/8 of 1%. Upon documentary payments a commission of 1/16 of 1% was charged. The discount upon a 90-day banker's acceptance in the United States was 4% and the commission charged by the American bank 1/4 of 1%. The company could purchase sterling in late March, 1924, at $4.29. The premium at which cable transfers to Australia were sold in London was 1 1/4%. There was also a premium on future exchange in sterling that was charged to the customer by the bank. The future premium[2] on 120-day sterling to the amount of £25,000 was $625 in March; on 30-day sterling of the same amount, $125.

The cost of financing by means of a £10,000 letter of credit which the company had secured in September, 1923, when sterling was quoted at $4.37, was calculated as on the following page.

[2] The future premium represented the amount the bank must pay, in excess of the exchange value of sterling, for future sterling, the premium varying in relation to difference in interest rates between New York and London, and also as the supply and demand for future exchange varied. Usually in the past there had been a discount on future sterling rather than a premium. At times there might be neither a premium nor discount.

TABLE 2

COST OF £10,000 90-DAY LETTER OF CREDIT

Cash for £10,000 at $4.37	$43,700.00
Future premium	300.00
Australian discount at 2 7/8%	1,256.37
Banker's commission for letter of credit at 3/8 of 1%	163.87
Total cost	$45,420.24

The cost of financing imports of wool by means of a £10,000 cash deposit in London against which sight bills were sold in Australia would have been as follows in September, 1923:

TABLE 3

COST OF £10,000 CASH DEPOSIT IN LONDON

Cash for £10,000 at $4.37	$43,700.00
Discount on Australian sight bill, 1 5/8%	710.12
Banker's commission, 1/16% for documentary payment	27.75
Total cost of draft	$44,437.87
Credit interest on London deposit, 2% 30 days	51.25
	$44,386.62
Four months' carrying charge at 6%	887.72
Total net cost	$45,274.34

By means of cash payments in Australia, the cost to the importer would have been as indicated in Table 4.

TABLE 4

COST OF £10,000 CASH IN AUSTRALIA

Cash for £10,000 cable transfer at $4.37	$43,700.00
Australian premium, 1 1/4%	546.25
Cost of funds placed in Australia	$44,246.25
Banker's commission, 1/16% for documentary payment	27.65
Four months' carrying charge, 6%	884.92
Total cost	$45,158.82

Had the importation in September been financed by means of the acceptance, the cost to the importer would have been $45,-149.75.

Which of the four methods of payment should the Towneur Wool Company have adopted in March, 1924?

3. Merritt Leather Company

REFUSAL TO TAKE ADVANTAGE OF LOW RATES UPON BANKERS' ACCEPTANCES IN THE UNITED STATES

The Merritt Leather Company, of New York, with annual sales of from $30,000,000 to $40,000,000, were tanners of hides and sheepskins purchased both in the United States and in foreign countries. Sheepskins valued between $1,000,000 and $2,000,000 annually were imported from New Zealand where they were purchased by an American representative of the company. In October, 1924, the company's representative was arranging to return to New Zealand for the buying season which continued through November, December, and January. The low rate on bankers' acceptances in the United States led the executives of the company to consider a change in the method of financing its purchases during the ensuing season.

The Merritt Leather Company had imported sheepskins under a 60-day sterling letter of credit in favor of the New Zealand shipper. The amount of the draft drawn by the shipper included, in addition to the cost of the sheepskins, the discount which the banks in New Zealand charged for purchasing the draft at the time it was drawn. This draft with the shipping documents was sent to London, where it was accepted by the London correspondent of the New York bank through which the Merritt Leather Company had purchased the letter of credit. Because of the time required for assembling, packing, and loading the sheepskins and the time necessary for the papers to reach London from New Zealand, the papers ordinarily arrived in London from 30 to 40 days after the purchase of the sheepskins in New Zealand. As the draft became due 60 days after its acceptance in London, it was unnecessary for the company to provide funds to meet the draft until at least 90 days after the sheepskins were purchased. The company thus might be able to obtain funds for payment of the draft from the sale of the skins themselves.

In calculating the cost of financing the purchases by a 60-day letter of credit, the Merritt Leather Company had to include the New York banker's commission on the letter of credit in addition to the discount charged by the New Zealand banker. These commissions are shown in Table 1.

The Merritt Leather Company ordinarily contracted for the

Table 1

Commission Charged by Company's New York Banker for Letter of Credit for New Zealand

Sight	¼ of 1%
30-day	¼ of 1%
60-day	⅜ of 1%
90-day	½ of 1%
120-day	⅝ of 1%

purchase of the exchange necessary to meet the draft at the time that the skins were purchased. The company, however, did not pay for the sterling until the draft was due. Although this future sterling customarily was quoted at a premium of about ½ of 1% a month, in 1924 it was quoted at a discount. The discount upon sterling futures lessened the cost of financing the purchases. In early October, the discount on December sterling amounted to about ½ of 1%; that is, when the demand rate was $4.50, the 60-day rate was $4.48.

Discount rates in New Zealand had increased and rates upon bankers' acceptances in the United States had decreased during the past four years as shown in Tables 2 and 3.

Table 2

Value in New Zealand of £100 Draft on London

	1921	1922	1923	1924
Demand	£100	£98¾	£98¼	£98
30-day	99½	98⅜	97⅞	97⅝
60-day	99	98	97½	97¼
90-day	98	97½	97	96¾

It was possible, therefore, for the company to save money by importing sheepskins under a sight letter of credit and by obtaining the funds to meet the draft through the sale in the United States of bankers' acceptances. To determine the saving which would result from the change in the method of financing, the company calculated as follows: The spread in the rate between the discount on a demand draft in New Zealand at 2% and that on a 60-day draft at 2¾% was ¾ of 1%. This difference of ¾ of 1% for 60 days equaled 4½% a year; that is, a saving of 4½% per annum would result from a change in financ-

TABLE 3

DISCOUNT UPON BANKERS' ACCEPTANCES IN NEW YORK*

	1921 Ask	1921 Bid	1922 Ask	1922 Bid	1923 Ask	1923 Bid	1924 Ask	1924 Bid
30-day	4¾%	—4⅞%	3½%	—3⅝%	4 %	—4⅛%	2 %	—2⅛%
60-day	4¾	—4⅞	3½	—3⅝	4⅛	—4¼	2	—2⅛
90-day	4¾	—4⅞	3½	—3⅝	4⅛	—4¼	2⅛	—2¼
120-day	4¾	—5	3½	—3⅝	4¼	—4⅜	2¼	—2¾

* Data from *Commercial and Financial Chronicle* for early October in each year.

ing from a 60-day letter of credit to a sight letter of credit. Since it was necessary, however, to finance in the United States the payment of the sight draft, the actual saving would be smaller. The discount on a 60-day bankers' acceptance in the United States was 2⅛%. To this was added the commission for bankers' acceptances which was at the rate of 1¼% per year. The summary of the saving was as follows:

Saving in discount by use of sight drafts	4½%	
Saving in bankers' commission on letters of credit	⅛	4⅝%
Discount on 60-day bankers' acceptances	2⅛%	
Bankers' commission on acceptances	1¼	3⅜%
Gross saving		1¼%
Less:		
Discount on sterling futures		½
Net saving		¾%

The Merritt Leather Company borrowed funds to operate its business both through the sale of commercial paper and through the use of lines of credit at commercial banks. Although the company was not borrowing funds through the sale of commercial paper in October, 1924, its average annual borrowings by means of commercial paper over the preceding four years had amounted to about $2,000,000. Generally, the borrowing upon its lines of credit fluctuated between 25% and 75% of the amount borrowed through the sale of commercial paper. At all times the company maintained an unused line of credit sufficient to retire all outstanding commercial paper. The company sold its commercial paper through two of the largest and most reputable commercial paper brokers in New York City. These purchasers considered its paper to be of high standing. In selling the commercial paper of the Merritt Leather Company, the commercial paper brokers stated to the prospective purchasers that the spe-

cific paper being offered represented the only outstanding obligations of the company. The commercial paper brokers considered that the ability to make this statement added to the value of the company's commercial paper.

Under the proposed plan of using a sight letter of credit, the Merritt Leather Company would draw a draft on the commercial bank, which the bank would accept. The acceptance would then be sold at the existing rate to purchasers of bankers' acceptances. Thus the company would have obligations outstanding in the hands of the public which it would not have if the purchase of the sheepskins were financed by a 60-day letter of credit alone.

The commercial bankers informed the treasurer of the Merritt Leather Company that purchasers of bankers' acceptances ordinarily paid little attention to the company which drew the acceptance. The bankers contended that the purchaser was interested only in the bank which had accepted the draft. The statement of the commercial paper brokers was contrary to that of the commercial bankers. The former stated that the purchasers did pay attention to the name of the company which drew the draft. They asserted further that if acceptances were outstanding they would not be able, in selling the paper, to state that the commercial paper offered was the only obligation which the company had outstanding. They contended further that prospective purchasers of the commercial paper might hesitate to purchase the paper if they already had the acceptances which the company had drawn on the bank. They stated that the prospective purchaser might consider that he had enough funds invested in the sheepskin industry and that diversification would be beneficial. It would be more difficult, therefore, to sell the commercial paper of the Merritt Leather Company.

The treasurer of the Merritt Leather Company believed that there was an additional disadvantage in having the company's acceptances outstanding. He had found that in the past a large part of the company's commercial paper had been purchased in small amounts by unimportant country bankers in all sections of the United States. It was the custom of these country bankers to write to their large city correspondents for advice upon the quality of the commercial paper which they contemplated purchasing. If the large city bank stated that it considered the company to be strong financially and had purchased its accept-

ances at times, the country banker might believe that the company had obligations outstanding which were superior in security to those which were offered to him.

The treasurer did not wish to take any action which might incur the ill will of the company's commercial paper broker unless that action resulted in a material financial saving. It was often possible for the broker to render to a manufacturer small favors which could not be valued in dollars and cents. If a company experienced a sudden demand for funds which it was unable to meet from the cash on hand, it was advantageous to be able to request the broker to deposit the funds in the bank upon the company's assurance that the necessary documents for the sale of commercial paper would be sent to the broker at once. Ordinarily a company did not receive the funds until after the broker had sold the commercial paper. Although the Merritt Leather Company had experienced no such need, it was not certain that it would not need assistance in the future. Since the company was selling no commercial paper in October, 1924, and since the brokers occasionally asked the company if it did not desire to sell paper, it was possible that the brokers would make no strong complaint if the company should finance by acceptances.

The treasurer believed that the disadvantage of having once sold acceptances would affect the sales of commercial paper whether such sales of acceptances continued over the entire sheepskin buying season or over only a portion of it. He was not certain that the saving of ¾ of 1% which existed in October, 1924, would continue to exist throughout the buying season. In the past, the rates of discount charged by New Zealand banks at the beginning of the buying season ordinarily had continued the same throughout the entire season. This made the saving dependent upon the rate for bankers' acceptances in the United States. He believed that it was more likely that the rate would increase from 2⅛% and reduce the saving than that it would decrease from 2⅛% and increase the saving. Although he did not attempt to estimate in dollars the values of the company's relations with its brokers, he did not believe it advisable to risk incurring their ill will for a saving which probably would not exceed $10,000.

The treasurer decided to continue to finance the company's purchases of sheepskins upon a 60-day letter of credit.

4. Joecy Wool Company

LETTER OF CREDIT *vs.* CABLE TRANSFER IN PAYMENT OF WOOL IMPORTS FROM ARGENTINA

The Joecy Wool Company imported annually from 6,000,000 to 8,000,000 pounds of wool. Of this quantity about one-third was imported from Argentina and two-thirds from Australia. Because of the low interest rates of from 2½% to 3½%, which existed in the United States in October, 1924, the company questioned the advisability of continuing to finance its imports from South America by a 90-day dollar letter of credit, which it had used in the past and which was customary in the trade.

The prices of Australian wool were quoted in sterling, and the method of payment used by many American importers was a 90-day sterling letter of credit. The prices quoted to American purchasers of Australian wool were the actual prices for the wool. The discount which the Australian banks charged the shipper for purchasing the draft which he drew upon the American importer was added to the invoice cost of the wool. The Joecy Wool Company had found that, because of the high rates of discount charged by the Australian banks, it was profitable to pay for its purchases of Australian wool by cabling cash to the shipper at the time that the wool was purchased.

Aust ⅔

The price of Argentine wool was quoted to American importers in United States dollars. The customary trade practice was to import the wool under a 90-day dollar letter of credit issued by the bank of the American importer in favor of the Argentine wool shipper. The price quoted included not only the actual cost of the wool, but also the discount which the Argentine bank charged the exporter for discounting the draft given in payment by the American importer. The ultimate price quoted was not arrived at by calculating the discount and adding it to the cost of the wool. By trade custom the market price quoted included the discount.

Arg ⅓

Although the discount rates in Argentina were not so high as those in Australia, it was possible to effect a saving by cabling cash rather than by the 90-day letter of credit for payment. The rates of discount quoted in Australia were not upon an annual basis as were the discount rates quoted in Argentina. For example, a discount rate of 4⅞% for a 90-day draft in Australia meant

that 4⅞ pounds would be taken from a 100-pound draft. This made an annual rate of 19½%. A discount rate of 6⅜% for a 90-day draft in Argentina meant that interest at the rate of 6⅜% per annum for 90 days would be deducted from the amount of the draft.

In the first week in October, 1924, the discount rates in Argentina were as follows:

Sight	00 %
30-day	6⅛%
60-day	6¼%
90-day	6⅜%
120-day	6½%

Although no discount was taken upon a draft drawn in Argentina which was due upon sight in the United States, it was customary for the Argentine banker, in calculating the number of pesos which were to be paid to the South American shipper for his sight draft upon the United States, to deduct about two points from the cable rate of exchange. For example, if the cable rate for pesos per American dollar was 2.15, the Argentine shipper would be paid at the rate of 2.13. These two points were to compensate the bank for the interest upon the funds during the time required for the draft to reach the United States from Argentina.

The commission charged by American banks for letters of credit in favor of Argentine exporters were as follows:

Sight	⅛ of 1%
30-day	⅛ of 1%
60-day	⅙ of 1%
90-day	¼ of 1%
120-day	⅜ of 1%

The charges for cabling funds to Argentina were the cost of the cable, which averaged about $5, plus a commission of ⅛ of 1%, with a minimum charge of 50 cents for the ⅛ of 1%. The saving to be effected by the use of a sight draft or the cabling of funds rather than the use of a 90-day letter of credit was calculated as follows:

90-Day	Sight	Cable
Discount, 1 19/32% Bankers' commission ¼ of 1% Total cost 1 27/32%	Estimated expense because 1% of deduction from demand rate of exchange Bankers' commission ⅛ of 1% Total 1⅛%	Cable charge $5 Bankers' commission ⅛ of 1% Total $5 + ⅛ of 1%

The saving between a 90-day letter of credit and a sight letter of credit was 23/32 of 1%. The saving between a 90-day letter of credit and the cabling of funds was about 1 23/32% on a large draft. This saving would be the result of a reduction in the selling price of the Argentine exporter equal to the discount which he would have had to take had payment been made by a 90-day draft. Since payment by a sight draft or by the cabling of cash required that the company provide funds about 120 days sooner than if a 90-day letter of credit were used, it was necessary to add to the cost of these methods the interest upon the funds advanced. The interest rates as represented by the rates on bankers' acceptances in the United States in early 1924 were from 2⅜% to 2½% per annum.

The Joecy Wool Company estimated that the net saving to be gained by paying for its Argentine purchases in the same manner that it paid for its Australian purchases, that is, by the cabling of funds, would be about 9/10 of 1%, and it was very anxious to secure this saving if by so doing it would not jeopardize its chance of securing its necessary supply of wool in the Argentine market.

On the other hand, the trade custom of quoting a price which included the discount was so well established that an attempt to have prices quoted upon a cash basis would cause inconvenience and confusion to the shipper. The relations, futhermore, between the price which he quoted for payment under the customary method of a 90-day letter of credit and that which he quoted for payment by cash would have to be changed each time that the discount rate in Argentina was increased or lowered. It was possible also that some shippers would not wish to make the calculations necessary to determine the difference between the two prices. If, for example, two offers were made to an Argentine shipper, one by a company which intended to pay by the customary 90-day draft, and the other by the Joecy Wool Company, whose offer was less than that of its competitor by the amount of the discount which the bank would charge the shipper, it is likely that the shipper would accept the first offer rather than to make the calculations necessary to determine the accuracy of the second.

Should the Joecy Wool Company attempt to change its method of payment for Argentine wool?

B. EXCHANGE PROBLEMS

5. Condar China Company

PURCHASE OF FOREIGN EXCHANGE

The Condar China Company, of Philadelphia, had imported china and glassware for about 100 years. Its annual sales amounted to approximately $1,500,000, of which 47% was of domestic manufacture, 30% of English, 4% of French, 5% of German, and 14% of Japanese manufacture. Previous to the middle of 1924, the company never had purchased any exchange before it was needed for the payment of invoices. Because of the profits which might have been obtained in early 1924 if this policy had not been followed, and because the company believed that the French franc, as well as the pound sterling, probably would increase in value upon the acceptance of the Dawes Plan for payment of reparations, the treasurer questioned the advisability of continuing the policy.

Forty-six per cent of the company's sales were of dinner ware; 12%, of glassware; 28%, of hotel ware; and 14%, of fancy ware. The dinner ware came largely from England, Japan, and France; the glassware was manufactured principally in the United States, although a small proportion was of French origin. The hotel ware was of domestic and English origin; the fancy ware consisted of novelties which were purchased in all countries, of which Japan, China, Italy, and Czechoslovakia were the main sources. The manufacturers of glassware and crockery manufactured only upon order of the Condar China Company. From four to six months were required for the merchandise to arrive in the United States after it had been ordered.

The Condar China Company sold 85% of its merchandise at wholesale and 15% at retail. The company had a wholesale distribution of its products in all parts of the United States. It maintained a traveling sales force of 20 men. That merchandise which was sold at wholesale was marketed in three ways: from open stock, in crates, and for import. A crate of china, for example, was a case containing an assortment of a specific number of dozen of each kind of plate, of cups and saucers, and all other articles needed for a complete set of china. If the merchant sold all one type of plate and wished to replete his stock of

that plate, it was necessary for him to order from open stock. If he desired to place an order for several crates of merchandise and did not wish to have them delivered at once, he could place the order for import. The Condar China Company then would place this import order with the manufacturer in the foreign country. Upon the arrival of the merchandise in the United States, the Condar China Company would ship it at once directly from the docks to the purchaser. The average mark-up of the Condar China Company for sales from open stock was 60% of the landed cost. Sales in crates were made at a discount of 10% from the open-stock price, and sales for import at a discount of 10% from the price for crates.

The prices of the Condar China Company were changed in accordance with the manufacturers' prices. These changes sometimes occurred semiannually, but more frequently occurred annually. The manufacturers customarily notified the Condar China Company six months before a prospective change in price.

The prices quoted to the Condar China Company by English manufacturers were in sterling; prices of the French, in francs; of Japanese, in American dollars; of Czechoslovakian, in Czechoslovakian francs; of Italian, in lire; and of German, in American dollars. The company maintained a forwarding agent in Germany who paid for all German and Czechoslovakian purchases upon presentation to him of the shipping documents. He also negotiated with the banks to determine the rate at which the Czechoslovakian francs would be exchanged into American dollars. The Condar China Company supplied him with funds by depositing with the New York correspondent of the agent's German bank sufficient funds to meet the payments.

The method of paying in the other countries was different. Products from Japan were under the control of a Japanese monopoly which was represented by agents in New York. It was necessary to purchase from these agents, to whom payment was made in American dollars, 40 days after the arrival of the merchandise in the warehouse of the Condar China Company. Payments were made in Italy by lira letters of credit on an American bank in favor of the Condar China Company's agent in Italy. These letters of credit were opened in the United States at the time the merchandise was shipped from Italy. Purchases in France were made upon open account. The payment in francs was due 30

days after the date of the invoices. As it required about 10 days for a vessel from the United States to reach France, the company estimated that it was necessary to make the payment about 20 days after the day of the invoices.

The company had a forwarding agent in England who attended to and paid for all purchases made from manufacturers from whom the company normally purchased only small amounts at frequent intervals. The company supplied its agent with £1,000 sterling and replenished this amount whenever necessary by sending additional funds to him in amounts of £1,000. For those English companies, however, with which the Condar China Company had dealt for a long period of time and from which it purchased large amounts at regular intervals, relations were direct, and payments were made to the manufacturers. Payment was made 30 days after the date of the invoice.

The purchases which the company made in England averaged about the same amount each month in the year. As a result, it was necessary for the company to purchase about the same number of pounds sterling each month. No advantage in the cost of exchange, therefore, could be secured by purchasing exchange in advance of the time it was needed for payment so long as this policy was followed consistently. It made no difference, for example, whether the exchange purchased in January of one year was to pay for purchases made from four to six months earlier, or to cover the exchange necessary for the payment of purchases made in January to be delivered four to six months in the future.

An advantage, however, in purchasing exchange at the time of the purchase of the merchandise was that of establishing at once the purchase price of the merchandise. The ultimate cost, however, could not be established accurately at the time of purchase since the company did not know the duty which it would have to pay. Duty was calculated by the customs officials after the arrival of the merchandise in the United States and was based upon the rate of exchange prevailing upon the day the merchandise was shipped from England. Although sterling futures were selling at a discount in early 1924, this situation was not normal. Ordinary sterling futures commanded a premium of about ½ of 1% a month. The purchase of exchange at the time of purchase of the merchandise thus would cost the company the premium which it was necessary to pay.

The situation in France, however, was the one upon which the treasurer was most undecided. The company did not make regular purchases as it did in England. It was possible for wide fluctuations to take place in the rate of exchange between the time that the merchandise was purchased and the time that payment was made four to six months later. These fluctuations caused variations in the cost of merchandise to the Condar China Company.

The treasurer could purchase exchange at the time that the merchandise was purchased; this would establish the purchase price of the merchandise. He could purchase exchange whenever it was believed to be low, attempting to have amounts on hand at all times. For example, if francs had been purchased in March, 1924, at 3.45 cents, the rise to 5.25 cents on October 15 would have represented a substantial profit. The treasurer considered this method to be one of mere speculation and did not believe it desirable. A third method was to purchase the exchange at the time it was necessary to pay for the merchandise. The company always had followed this policy.

In July, 1923, the company had purchased French merchandise to the value of 131,000 francs. At that time the value of the franc was 5.12 cents. The merchandise was to be delivered during December, 1923, but did not arrive until May, 1924. Payment was made with francs at 5.70 cents. The company would have saved, therefore, about 10% if it had purchased its francs at the time it had purchased the merchandise. In another instance, a buyer in the early part of 1923 had purchased 100 crates of novelties in Czechoslovakia which the company sold in the United States for $35 a crate. The novelties proved to be immensely popular, and the company quickly sold its 100 crates. It sold, in addition to this, 100 crates for import at $35 less 10%. About four months later, when a German agent of the company paid for the 100 crates, the Czechoslovakian franc was double the price that it had been at the time the merchandise had been bought, with the result that the cost per crate to the Condar China Company was about $35.

There were distinct disadvantages, however, in purchasing the francs in advance. The French manufacturers frequently failed to deliver the merchandise upon the date agreed upon at the time of purchase. That is, as with the purchase of 131,000 francs, the

arrival of the merchandise in the United States might be from one to four months later than the agreed date. This caused an inconvenience in purchasing forward exchange. If the Condar China Company should purchase merchandise in July for delivery in December, it would purchase francs to meet the payment when due. It would be necessary, if the merchandise failed to arrive on time, to request the bank to postpone the date of the delivery of this exchange. The banks charged a commission of ¼ of 1% for an extension of 30 days. In some instances, they would extend a second 30 days for an additional ¼ of 1%. If the merchandise did not arrive at that time, the Condar China Company would have to sell the francs which it had purchased.

Duty on the company's merchandise varied from 40% to 70% of its value. The rate of exchange upon which the duty was estimated was fixed at the rate existing upon the days the merchandise was shipped. The purchase of the exchange at the time the merchandise was purchased would fix the cost of the merchandise with the exception of the duty.

In July and early August, 1924, the treasurer believed that if the Dawes Plan were accepted the dollar value of the franc would increase. Since he knew that the company would need about 50,000 francs in October and November, 1924, he purchased that amount of francs on August 19 at 5.42 cents. On October 15, francs could be purchased at 5.25 cents. The treasurer decided that the experience of the company in this instance, together with the disadvantages which would be encountered because of the delays in arrival of merchandise, justified the company's returning to the former policy of purchasing exchange only when payment was due.

6. Espy Tea Company

PURCHASE OF FOREIGN EXCHANGE

The Espy Tea Company, one of the largest tea importing companies in the United States, specialized in teas from India and Ceylon. Imports amounted annually to about 15,000,000 pounds, which were sold to wholesale grocers, retail grocers, and chain stores. The purchase of this quantity of tea required that the company procure between £750,000 and £1,000,000 sterling per year. The fluctuations which occurred in the price of sterling in

late 1923 and early 1924[1] led the treasurer of the Espy Tea Company to question the advisability of continuing the policy which the company had followed in the past of purchasing exchange only when it was required to meet the payment of drafts.

Most teas produced in Ceylon and India were sold at auction in Colombo, Calcutta, or London. Approximately 45% of the Ceylon tea was sold at auction in Colombo, about 30% of the India tea sold at auction in Calcutta, and the remainder of the tea of each of these countries was sold in London in the same manner. The tea purchased at auction in Calcutta and Colombo was paid for in rupees, and that purchased at the auctions in London, in sterling.

Payment for all teas purchased was made by a 90-day sterling letter of credit issued by a London bank. In Ceylon and India the amount of the draft was determined by the number of rupees required for the payment of the purchase, converted into sterling at the rupee-sterling rate for 90-day drafts in those countries on the day the draft was drawn. Fourteen days before the draft became due, the American bank through which the Espy Tea Company financed its purchases bought the amount of sterling necessary to meet the draft, which had been forwarded to it by the London bank, and charged it to the Espy Tea Company at the rate which prevailed at 10 a.m. that day. The purchase of tea by the Espy Tea Company occurred at irregular intervals. The American bank, therefore, did not purchase sterling on the account of the company regularly.

The Espy Tea Company sold its tea to wholesalers and directly to retailers. More than 50% of the sales were in the latter class. It sold three grades of tea, for which retailers paid 76, 78, and 81 cents, respectively. These prices had existed for the past five years and there was no likelihood that a change

[1] Value of Pound Sterling*

1923	High	Low	1924	High	Low
July	$4.60	$4.55	January	$4.31	$4.23
August	4.58	4.54	February	4.35	4.27
September	4.56	4.51	March	4.30	4.25
October	4.55	4.47	April	4.39	4.30
November	4.49	4.28	May	4.36	4.31
December	4.39	4.33	June	4.33	4.30

* *Kimber's Foreign Reports*, July 28, 1924, p. 586.

would be made in the near future. The selling price of the Espy Tea Company, therefore, remained the same whether the cost of tea was high or low.

The purchase of exchange at the time the tea was purchased made it possible to ascertain the cost of the tea. If the company determined, for example, that a specific quotation was the highest price which it desired to pay for a particular grade of tea, and a purchase was made at that figure, the immediate purchase of exchange guaranteed that the ultimate cost of the tea to the company would be no greater. If the Espy Tea Company had purchased its sterling at the time of the purchase of its tea in early 1924, moreover, a saving would have resulted, since sterling increased from $4.23 in January to $4.55 in August. On the other hand, if it had purchased its sterling in advance in late 1923, a loss would have resulted, because sterling decreased from $4.60 in July to $4.28 in November. Although it was not the situation in late 1924, future sterling normally sold at a premium of about ½ of 1% a month. Thus, if the company should adopt the policy of purchasing exchange in advance, the cost of financing its purchases would be increased by the amount of the premium on future sterling.

Since exchange did not follow one trend consistently over a period of years, but fluctuated up and down, the import manager of the Espy Tea Company believed that it made no difference whether exchange was purchased at the time of the purchase of tea or at the time that the draft became due, provided one policy was followed consistently. It was his opinion that profits approximately would equal losses over a period of years, whichever policy was followed. The import manager believed that since the selling price of the tea seldom was changed, the purchase of exchange at the time of the purchase of tea, before the exchange was needed to pay the creditor, was actually a speculative transaction, since its purpose was to protect the purchaser against a possible rise in the cost of the article. He decided, furthermore, that with the uncertain political and economic conditions existing in England in early October, 1924, and with the huge debt which England owed the United States, there was a greater possibility that the dollar-sterling rate of exchange would decline rather than increase. The postponement of the purchase

of sterling, therefore, was more likely to result in a profit than if it were purchased at the time the tea was ordered.

Although the import manager recognized that it might be possible to obtain profits by following one policy at one time and the other policy at another, it was his opinion that it was advisable to follow the same policy consistently. He decided, consequently, that the company should continue to allow the bank to purchase the exchange at the time the draft became due.

7. Roberts Company

AVOIDANCE OF LOSS IN FLUCTUATIONS IN EXCHANGE

The Roberts Company, a coffee-roasting and tea-packing company situated in St. Louis, imported annually about 60,000 pounds of tea which, together with its best grade of coffee, was sold under a well-known and nationally advertised brand. The cheaper grades of coffee were advertised only locally in the territories in which they were sold. Because of the low margin of profit which existed on a prospective purchase in July, 1924, the manager of the tea department considered a method for the elimination of exchange risk.

Since the tea department was considered secondary to the coffee department, the treasurer and the other officers of the company were not well experienced in tea importing. They, therefore, left the administration of this department to the discretion of the tea manager who was held responsible for profits and losses in the department.

The tea purchased from India and from London ordinarily was quoted in the United States in pounds sterling, but that coming from China and Japan was quoted in dollars. Tea from Java was quoted either in dollars or in sterling, but generally in dollars.

The fluctuations which occurred in sterling exchange were an important factor in determining the cost of tea, as a fluctuation of 10 cents a pound in sterling caused a difference of 1 cent a pound avoirdupois in tea originally priced at from 38 to 40 cents a pound. It was customary among a majority of the tea merchants to secure protection against fluctuations in exchange by the purchase of sufficient sterling at the time of the purchase of

the tea to meet the draft drawn upon them by the seller when it became due. Drafts ordinarily were drawn for either 30 or 60 days. It was the opinion of the manager of the tea department of the Roberts Company that this was the desirable way in which to purchase tea. He believed that speculation in exchange was not a function of the tea merchant.

The treasurer of the Roberts Company, on the other hand, strongly preferred to buy sterling at the time the drafts were due. He had given no orders in this respect, however; yet he did not believe that the company should go to the expense of purchasing sterling before it actually was needed for the payment of the draft. He was not familiar with the causes of fluctuations in sterling exchange and did not follow them closely. Several times in the past when the company had purchased exchange, it had lost the opportunity to make a speculative profit, as sterling had declined between the time of the purchase of the tea and the time that the draft had become due. The treasurer cited these instances as a basis for his opinion.

Three grades of tea made up the largest part of the company's sales. These were the grades which retailed at a uniform price of 40 cents, 80 cents, and $1 a pound. The company sold only to wholesalers. The manager of the tea department had devised a method of determining the maximum price which the company profitably could pay for the usual blends of tea, and permit the products to be sold at those standard prices.

This method provided that 25% be subtracted from the retail price to allow for the gross margin of the retailer. In turn, 15% of the wholesaler's selling price was subtracted to allow for the profit paid to him. From this remainder was subtracted 12½% of the Roberts Company's selling price which was the amount estimated by the company as necessary to cover the indirect charges and result in a minimum of profit. From this result was subtracted the cost of preparing, packing, labeling, together with the cost of the tin containers, and a calculated average cost per pound for freight. This average was determined by calculating the arithmetic average of the freight charges per pound of tea to various cities to which the company shipped tea. These elements of the cost were revised from time to time as the cost of labor, tin containers, or freight rates changed. The remainder, after this final deduction, was the maximum amount which the

manager considered he could pay for its tea and obtain a profit. The manager of the tea department believed that the company actually should pay from 3% to 4% less than it was paying in order to receive a sufficient manufacturing profit.

On July 25, 1924, the Roberts Company was offered by the New York broker of a London company 14 cases of India tea (Assam Pekoe) "Itakhoolie" at 1*s* 9¼*d*, c.i.f. ex-dock New York, less 3% in 10 days after arrival. At the time, sterling exchange was quoted at $4.40. At that rate the cost of the tea amounted to 38.94 cents a pound, which was between 1 and 1½ cents below the maximum limit which the company could pay for teas of that quality. The 3% deduction for cash in 10 days would not affect the profit of the Roberts Company, since it gave its customers a discount of 3% for cash in 10 days. The tea was to be shipped on the steamship "Kermitshire," due to arrive in New York on or about August 18. This would cause the bill to come due on August 28. If the company accepted the offer in sterling and purchased the exchange when the draft became due, a decrease in the price of sterling would, of course, increase the profit, while an increase would lessen the profit. A decrease in the gross profit to below 12½% would embarrass the manager of the tea department, who was held entirely responsible for the department. Although the company sold a few blends upon which it was making from 6% to 10% more than the 12½%, the manager wished to keep as low as possible the number of blends which were being sold at a gross margin of less than 12½%. Although rumors were heard that, because of the increasing price of tea, important competitors of the company were considering increasing the standard retail prices, he did not consider it wise to depend upon such a probability to contract a loss which might occur in fluctuations in exchange. He believed that sterling was likely to fluctuate during the summer, depending on the outcome of the London conference concerning the Dawes Plan, which was then in session.

Because he did not wish to risk paying more than the price indicated by exchange on July 25, he decided not to accept the offer. He did, however, make a counter-offer of 38.50 cents a pound, payable in dollars. This offer was accepted by the London broker. By August 28, the price of sterling had advanced to $4.50.

C. FINANCING FOREIGN PRODUCERS

8. Allis Brothers

FINANCING A FOREIGN MANUFACTURER OF POTTERY

The wholesale firm of Allis Brothers, Philadelphia, an importer of the higher grades of pottery and china, was the exclusive agency for the Dijon Frères pottery, located near Limoges, France. In 1923 the firm oversold the capacity of the pottery. To enlarge it sufficiently to meet the demand, $20,000 capital was required for the purchase and installation of additional plant equipment. This amount was not available from local sources in France, and Dijon Frères stated that if Allis Brothers wished to continue as the exclusive agency it would be necessary for them to extend financial aid to this amount. The firm's financial condition permitted the investment, but there was doubt as to whether the exclusive agency privilege warranted the extension of financial assistance to the foreign producer.

Pottery sold by Allis Brothers came from England, Japan, China, Czechoslovakia, France, Italy, and Germany. It ranged from the fine English bone china and Japanese dinner ware to baked and unglazed peasant pottery from Brittany and Italy. The warehouse was located in Philadelphia. Practically all wares handled by the company were imported, except those used in hotels and restaurants. Goods were sold from the company's own retail store in Philadelphia and by salesmen who visited retailers throughout the United States.

The majority of wholesalers purchased imported china from New York importers and from New York branches or agencies of foreign potteries. Agencies usually operated on a commission basis and did not carry stocks. Only a few wholesalers had sufficient sales to allow them regularly to send buyers to Europe and they, therefore, in accordance with the custom of the trade, paid a commission to the New York importing agencies which represented the potteries in the United States on all import purchases.

Because of its volume of purchases, Allis Brothers had found it possible to purchase abroad directly from potteries without the payment of commissions to importing agents. The prices

obtainable, consequently, were such that landed costs in Philadelphia were the same as those to New York commission agents. Allis Brothers, however, had an advantage over the agents in that it carried stocks which made possible immediate shipments. The firm had evolved a warehouse system which enabled customers to order in broken lots, in sets, or in crate lots directly from stock. Larger orders were placed for shipment from the potteries to customers, the potteries billing the orders to Allis Brothers, which entered the goods through its custom-house broker at the port of entry. The broker cleared the materials and arranged for shipment to the customers to whom Allis Brothers had found it necessary to mark up landed costs approximately 100% in order to cover breakage and expenses and to allow necessary profits.

Wholesalers in 1923 were eager to secure exclusive rights from foreign potteries to sell patterns of imported china. Designs were made up by wholesalers and submitted to foreign potteries. On the basis of volume of purchases, exclusive rights were secured to distribute such patterns. Haviland china, made in Limoges, had such a reputation for quality that importers were unable to induce the makers to grant exclusive rights for new designs. Allis Brothers had distributed as an exclusive agency for Dijon Frères in an attempt to secure a china of exclusive design which competed with the finer grades of French china. It was possible, under the existing plan, to change patterns at will.

It was difficult to secure competitive prices among the manufacturers in different countries. In Germany, for example, potteries were divided under governmental supervision into four classes on the basis of quality of merchandise and price levels. Although the government did not seem to regulate the quotations to foreign buyers, prices were controlled strictly, in practice, through the cartels. A similar situation seemed to exist in France although it was not defined so clearly as in Germany.

Discontinuance of the exclusive agency agreement would force Allis Brothers to bid competitively for styles and patterns, with no advantages in price to be secured from foreign manufacturers. It also meant limitation to competitive lines and inability to secure the exclusive use of a desirable manufacturer's name.

Since the agreement was terminable for cause at any time, Allis Brothers had to maintain satisfactory distribution of the entire

output of the pottery. This necessitated building up a reputation for Dijon Frères' china by advertising and sales effort. Consequently cancelation of the agreement would result in the loss of this reputation to a competing wholesaler. The proposed investment appeared advantageous because it placed a moral responsibility upon the pottery to continue distribution through Allis Brothers. It required also that the agency cooperate closely with the pottery. On the other hand, the investment might become the precedent for future demands. Furthermore, its justification seemed uncertain in view of existing industrial and financial uncertainties in Europe.

Other foreign manufacturers were requesting their exclusive agents in the United States to provide similar financial assistance. At any time additional investment might have to be made in order to continue the exclusive agency basis. While there was a possibility of fluctuation in quality from year to year, experience had proved Dijon Frères' reliability.

Since it could distribute profitably the increased output made possible by the expansion, and since it desired to continue its relationship with Dijon Frères, Allis Brothers decided to provide the funds requested.

9. Chatham Importing Company

METHOD OF FINANCING A MANUFACTURER IN A FOREIGN COUNTRY

The Chatham Importing Company was organized in New York in 1921 to specialize in importing optical instruments and small electrical devices, such as flash lights and automobile tail lights, from Germany and France. Its sales increased from $150,000 in 1921 to $350,000 in 1923. Of this amount about 20% was in flash lights which were made by a small German manufacturer. In January, 1924, the German manufacturer was compelled by increased interest rates and wages to quote the Chatham Importing Company on a contemplated order of 100,000 flash lights a price which was 4 cents a flash light higher than that quoted in 1923.

The Chatham Importing Company had been importing flash lights which cost 18 cents f.o.b. Hamburg. Payment was made by a 30- or 60-day dollar letter of credit in favor of the manufacturer. The summary of its costs per flash light was as follows:

Cost of flash lights f.o.b. Hamburg	$0.18
Freight to United States	.003
Insurance	.0018
Import duty, 35% f.o.b. value	.0630
Commission to agent	.0036
Indirect charges	.0279
Total cost	$0.2793

The company had an agent in Germany who received 2% of the value of all shipments. This agent represented the company in any misunderstanding which arose between the company and the German manufacturers or exporters. He also inspected the products which were being manufactured for the Chatham Importing Company and arranged the details of shipment to the United States. The company estimated that the indirect charges, including executive salaries, selling expense and interest, amounted to 9% of sales. The total cost thus amounted to between 27 and 28 cents per flash light. Seventy-five per cent of the flash lights were sold at 31 cents each to chain stores which retailed them at 50 cents. The remainder were sold at the same price to hardware wholesalers and retailers.

Prior to August, 1923, German manufacturers had been able to borrow funds from German banks at about 12% per annum. The Chatham Importing Company was informed by its representative in December, 1923, that interest rates had increased to a minimum of 40%, and in many cases to as much as 80%. As a result, the price at which the manufacturers could afford to sell flash lights in lots of 100,000 or more increased from 18 cents to 22 cents. The Chatham Importing Company estimated that the cost of manufacturing flash lights had increased from 15% to 20% because of increased labor costs, and a similar amount because of interest rates, making a total increase of from 35% to 40%. The selling price, however, had been increased only 4 cents, or about 22%. The manufacturer was able to operate on the lower margin of profit because the stabilization of currency, which had caused the high interest rates, had resulted in the elimination of speculation brought about by the wide fluctuation in the value of the mark.

The Chatham Importing Company sold its flash lights in large quantities and depended entirely upon price appeal for its sales.

Although no flash lights exactly like those which it was importing were marketed, others were sold which were from 10 to 25 cents higher in price. The company had found through previous experience that an increase of 10% in price decreased sales by about 20%. For this reason it believed that in order to dispose of lots of 100,000 flash lights profitably it would be necessary to maintain the price at 31 cents. It was necessary, therefore, for it to devise a method by which it could obtain the flash lights at a lower cost. The German manufacturer offered to sell the flash lights at 18 cents each, provided at least 50% of the value was advanced at the time the order was placed and the remaining 50% paid at the time that the merchandise was shipped from Germany.

7 One way in which the German manufacturer could be financed was for the Chatham Importing Company to advance the funds. The company had a line of credit with its banks of about $50,000 of which it normally used 75%. Under the letter of credit which the company had been accustomed to use, the line of credit at the bank was not used until after the bank's acceptance of the draft upon its arrival in the United States. Since it required about two months for the manufacture of the flash lights, and two weeks for shipment to the United States, the proposed plan for an order amounting to $18,000 required that $9,000 of the line of credit be used for four months longer, and that $9,000 be used for two months longer than the period during which the company would have used $18,000 under a 60-day letter of credit. These calculations did not allow for delays between the arrival of the merchandise at Hamburg and its shipment to the United States, which frequently had been as long as three weeks. Although the company had to pay but 6% for the use of the money, it believed that the actual cost of the financing could be determined only if the cost were reckoned at 10%, since this was the amount which the company could earn on the funds if they were invested in other branches of the business.

If the Chatham Importing Company advanced the funds, it would also have to consider the element of risk. It had maintained business relations with the manufacturer since its organization in 1921 and had found him reliable and trustworthy. An executive of the company upon a visit to Germany learned that the manufacturer had been established about 20 years. The plant and

equipment had been worth $150,000 before the depreciation in real estate values. The executive estimated that at present price levels it was worth about $15,000. There was already a mortgage of $2,000 upon the property. The executive learned through German banks that the business integrity of the manufacturer was high. It did not believe, however, that it was advisable to advance money to the manufacturer without any security, for in case the plant were destroyed or the manufacturer forced out of business by unforeseen circumstances, the company would be unable to recoup its losses.

One method of obtaining security would be by demanding that some wealthy German citizen guarantee the fulfilment of the contract or the return of the funds. The company was advised, however, by a German lawyer that this method was unsatisfactory because if the guarantor refused to make good the losses, it would be necessary to take the dispute into the courts. He stated that previous experience had shown that wealthy citizens were able to secure repeated delays in court actions, with the final result that the foreign importer received little satisfaction from the guaranty.

A second guaranty which the company could obtain was a mortgage upon the property of the manufacturer, which provided that it should act as security for the difference between the amount of money advanced by the Chatham Importing Company and the value of the flash lights accepted by that company, the value of the mortgage to be $9,000. The legal charges for such security would be 1% of the amount of the mortgage. Provisions were to be included which would require that the plant be covered fully by insurance. Since the Chatham Importing Company was the largest single customer of the manufacturer, purchasing from 25% to 50% of his output, the manufacturer was not opposed to mortgaging his plant. The company believed that this guaranty offered better protection than the first, since it gave a tangible security. On the other hand, it was not sure that it would receive fair treatment if it were necessary to foreclose the mortgage through the courts. It learned through its representative of instances in which the German courts had discriminated against foreigners. It recognized also that the protection would be of little value should a civil war break out within the country.

There was another way in which the German manufacturer

could be financed. A well-established and wealthy German exporter offered to finance the manufacturer if the Chatham Importing Company guaranteed to take the flash lights at 20 cents each, payment to be made upon presentation of the shipping documents at the time of shipment to the United States. Since the Chatham Importing Company already was the largest customer of the exporter and since the exporter took special care in rectifying all claims instituted by the Chatham Importing Company for poor quality, the Chatham Importing Company recognized that this method would release it from much risk encountered in advancing funds. It recognized also that the German exporter might require and obtain more strict adherence to the standards of quality than could its own agent in Germany. If the flash lights were unsatisfactory, the exporter could refuse to take them with less risk than the Chatham Importing Company. Disputes between the manufacturer and the exporter could be settled more easily than disputes between the manufacturer and the Chatham Importing Company, the settlements of which had to take place through the agent of the Chatham Importing Company in Germany. The company, furthermore, was relieved of the necessity of using $9,000 of its line of credit for a period of two months.

On the other hand, the cost of flash lights to the company would be increased not only by the additional 2 cents charged by the exporter, but also by the increased duty caused by higher f.o.b. cost. The summary of the costs under this method was as follows:

Cost f.o.b.	$0.20
Freight	.003
Brokerage and insurance	.002
Duty	.07
Commission	.004
Indirect charges	.0279
Total	$0.3069

These additional costs would reduce the net profit of the company to below ½ cent a flash light, which was a smaller profit than the company could afford to take.

Because the first method enabled the company to realize a larger profit, and because it believed that a mortgage on the plant offered sufficient security, the first method of financing was used. The

flash lights received were of good quality and the company realized the expected profit of about 2½ cents a flash light.

10. Bedlow National Bank

EXTENDING CREDIT TO A MANUFACTURER IN CZECHOSLOVAKIA

Since a time shortly after the signing of the armistice, when the importation of goods from Europe became more active, the Bedlow National Bank in New York has been experiencing difficulty in granting satisfactory credit to its European clients. The bank has a foreign department which for some time has made a specialty of acting as depository for European companies exporting to America, and of handling the bills of exchange, drafts, and other documents necessary in the transactions between clients in Europe and purchasers in America.

One of the European exporting firms which has been associated in a business way with the Bedlow National Bank during the years before the war manufactured carpets and rugs in a small plant in Czechoslovakia. A large proportion of the product of this plant was exported, and an important share of the amount exported came to the United States. The company was accustomed to sell here on open account, granting credit to its customers of 10, 30, or 60 days from the date that the goods cleared the American customs. This method of selling made it necessary for the company to invest in raw material, labor, shipping expense to the seaport in Europe, ocean shipping charges, and duties in America, and then wait up to 60 days before getting its money.

In pre-war days when credit was easily secured, when exchanges fluctuated but little, and when the American demand for the company's products was relatively steady, this method of financing sales did not work great hardships to the company and was satisfactory to American importers. After the war, however, when the company wanted to resume relations with its former customers it found that it did not have capital sufficient to manufacture a quantity of floor coverings and finance their shipment to America and their sale there under the old terms, without shutting down its plant in Europe after each shipment. Accordingly, the company applied to the Bedlow National Bank for some sort of credit secured by the goods in transit, this credit to be

essentially an advance to the company in anticipation of payment by the purchasers in America.

In attempting to solve the problem the bank desired to grant such credit as would make dealings with America as nearly satisfactory as possible to the European exporter. It looked with apprehension on ventures in Europe, however, and did not want to place itself in a position where it might be necessary to take over the plant in Czechoslovakia. It, therefore, decided that no credit should be granted to the exporter before the goods arrived in the United States. There could be credit, however, before the goods passed the customs. It was finally suggested that the bank offer to credit the manufacturer in Czechoslovakia with the full amount of the sale price of his merchandise after the merchandise had arrived in New York, provided that the exporter carried in the Bedlow National Bank a margin in collateral and in cash against which the bank could draw to pay duty, and provided further that the exporter give the bank permission to write to the purchasers of the various consignments telling them that the bank is financing the operations of the carpet manufacturer in America and asking them (not instructing them) to make payment at the Bedlow National Bank. It was suggested that the bank would not need to insist upon an assignment of the accounts in this country.

Does the suggested plan give to the European exporter as favorable terms of credit as the bank could safely extend?

XIII

TRANSPORTATION, WAREHOUSING, AND CUSTOMS PROBLEMS

1. Freight Forwarding Company

BASIS FOR CHARGES BY CUSTOM-HOUSE BROKER

In 1919 the manager of the foreign department of the Seattle office of the Freight Forwarding Company decided to undertake the duties of a custom-house broker. A usual charge for such services was a minimum sum of $2 per non-dutiable entry and $3 per dutiable entry plus 1% of the total duty paid. The manager was considering, however, the adoption of a method of basing charges on services rendered by which fees were to be computed from records of the time required to attend to shipments at the custom-house and at other government bureaus and to make computations at the brokerage office.

Each branch of the Freight Forwarding Company controlled its own policy, but was charged with a part of the overhead expenses of the main office in New York to which it was required to pay all profits. The manager of the Seattle office had specialized in export shipments, but, in 1919, he was requested by several customers to perform the functions of a custom-house broker. Prior to this time, the Freight Forwarding Company had supervised transportation of imports through its exclusive agents located at shipping ports throughout the world. Entering imports into the United States, however, had been intrusted to experienced brokers. The manager decided that his continued refusal to perform this service might result in the loss of profitable orders for forwarding, since these brokers also offered transportation services.

Among other functions, a custom-house broker filled out customs forms, which called for names of items imported, quantities, dutiable values according to tariff acts, classifications for duty, and identification markings upon packages. A thorough knowl-

edge of tariffs and of custom-house procedure was required. Correspondence with the customer and conferences with port appraisal officers in regard to classification were involved. The broker had to present the filled-in forms before the appraisal officer and make oaths in regard to source of shipment, packing, and correctness of entries and to perform all the many other detailed duties required in connection with entry of goods.

The manager of the custom-house brokerage department of the Freight Forwarding Company did not believe that a brokerage on the amount of duty paid fairly represented services rendered. A shipment of 500 tons of 96 degree centrifugal raw sugar valued at $69,933 involved payment of $14,067 in duty. One per cent brokerage on this amounted to $141. A shipment received for a department store valued at $70,000 might have ad valorem duties of $40,000. One per cent brokerage thereon amounted to $400. Since the latter type of shipment usually was made up of many items dutiable at different rates, it required a great amount of clerical work in computation and much expert knowledge of tariffs. The single entry for sugar was a simple affair in comparison. The difference in value of the services of the custom-house broker was greater than that represented by $259. Sugar, offering the importer a narrow margin of profit, could not bear the brokerage charge so easily as could department-store merchandise on which the selling price might be 50% more than landed cost. High duty and an additional brokerage charge upon the percentage basis made the costs of imports excessive in many instances.

A percentage charge, or brokerage on duty paid, presumably was based on the fact that brokers took a credit risk by paying duties, possibly borrowing money to make the payment and being reimbursed later by the customer. The manager of the foreign department of the Freight Forwarding Company, however, planned to notify customers of the amount of duty payable and receive their checks before duties were paid. If merchandise, such as food products subject to spoilage, was released under bond, the custom-house broker was liable to the government. He was required to furnish continuous bond commensurate in amount with the value of the largest probable imported shipment. There was continual difficulty in computing brokerage charges on the

percentage basis when entered value was changed on appraisal or reappraisal.

The performance of custom-house brokerage was justified only if in the long run it insured profits either directly on brokerage or from promotion of good-will among forwarding customers. If the manager adopted the policy under consideration, he would be criticized for undercutting even on such small items as brokerage fees. By charging on this basis for entries on which the service performed was small but the duty paid high, an opportunity for making a profit was lost. The charge, however, on merchandise with a low duty levy could be increased. If necessary, the flat fee for entry might be raised. Custom-house brokers rendered an itemized bill for postage, correspondence, and telegrams. The manager believed that such items should be an overhead charge included in "service rendered."

The reputation of the Freight Forwarding Company in forwarding, importing, and exporting had been gained by service, and the foreign manager maintained that custom-house brokerage, which involved an agent's relation to client, could be compensated fairly on the basis of actual services rendered.

He increased the flat rate to $3 per non-dutiable entry and to $5 per dutiable entry, and decided to charge for services rendered on the basis of the time involved in effecting entry and clearance.

2. Philadelphia Forwarding Company

RECOMMENDATION WITH REFERENCE TO PROTESTING RATES OF DUTY

In 1919 the Philadelphia Forwarding Company undertook custom-house brokerage in addition to its transportation and forwarding service. The company maintained offices in several American seaboard cities. In December, 1923, the manager of the foreign department at the San Francisco office was called upon by a regular customer in Philadelphia to enter through the San Francisco custom-house an initial shipment of 21,600 pounds, net weight, of frozen boneless chicken from China. On the basis of information received from his client, the manager gave this shipment a valuation of $7,267.50. As required by the Tariff Act of 1922, this valuation was the price in the country of origin at the

time and place of shipment of the goods packed and ready for shipment, with exchange computed according to the official rate at the time. With the approval of the port appraisal officer, he entered the merchandise as poultry, dutiable at 6 cents per net pound, a total of $1,296 duty. When the entry was liquidated, however, the collector of customs ruled that the removal of bones and freezing of the chicken were steps in preparation and preservation, and duty was assessed under the classification of prepared or preserved poultry, at the rate of 35% ad valorem, $2,543.63.[1]

The custom-house broker was obliged to decide whether to advise his client to accept the classification or to "protest." The broker was not and could not be familiar with the confidential details of his client's transactions. He was expected, however, to made recommendations based on his special knowledge of the tariff, but he declined to initiate proceedings without his client's authority. If the client decided to protest, the protest had to be made within 30 days after entry through the custom-house broker to the collector of customs. If the latter reaffirmed his decision, then the case had to be forwarded to the Board of General Appraisers at New York for review. A lawyer had to be engaged to prosecute the case in New York at an estimated cost of $300. It had been the experience of the custom-house broker that even when a decision was made in favor of the importer by the Board of General Appraisers the collector of customs appealed to the Court of Customs Appeals in Washington. This involved further legal representation in Washington at an additional cost of approximately $300. The importer might be called upon to testify either at New York or at Washington or at both places. Six months might elapse before a decision was reached by the Board of General Appraisers at New York and another six months before adjudication in Washington.

The custom-house broker advised his client to file a protest. The reply stated that the client was inclined to follow the advice, especially since an established portion of his importations was through Baltimore and consisted of beef fillets, boxed and frozen, under the classification of "fresh beef" dutiable at 3 cents a pound

[1] Tariff Act of 1922, Par. 712. "Birds, dead, dressed or undressed: Poultry, 6 cents per pound; all other, 8 cents per pound; all the foregoing, prepared or preserved in any manner and not specially provided for, 35 per centum ad valorem."

instead of "prepared meats" dutiable at 20% ad valorem. He had been allowed the lower duty on beef and thought he might secure the same on chicken.

Acceptance of the higher classification on chicken at San Francisco avoided risk of an adverse decision and also risk of any question as to the correctness of classification on beef fillets at Baltimore. If the broker advised protest, he would be recommending a course which involved his client in costs that ultimately might be as large as the difference in duty. The chicken had been released under bond while the broker was considering the question and without doubt the merchandise was sold. Although the broker knew nothing of the prices and marketing conditions of chicken, he realized that the customer might be unable to make a profit if the higher duty was demanded. A protest, however, involved possibility of reclassification of beef fillets imported in Baltimore. He did not know the quantity which had been received from other countries or what plans for the future the client had made. He might be making an experiment in this instance, and continuance of this product's importation depended upon the classification for duty. If the shipment were an experimental one, a part of the experiment should be the settlement upon an equitable and final classification. This would be broadcast through the customs' information exchange at the custom-house in New York. Thus transactions could be made on an assured basis.

The custom-house broker believed that it was possible for his client to secure a final classification at the rate of 6 cents a pound. Nevertheless, if the customer followed his advice to protest and not only lost the decision but also ultimately had to pay higher duties on beef fillets, he was likely to lose the orders of his customer. Moreover, the Philadelphia office was not the only one affected by his decision, for the customer used other offices of the company, both for forwarding and brokerage, not only on many other items of import, but for domestic business and for exporting. The Philadelphia Forwarding Company had built up a reputation for satisfactory service, as was attested by the fact that relative and actual volume of foreign transactions had increased markedly in a period of general decline in the export and import trade in the years from 1920 to 1923. On a basis of service, over a long period of time, the interests of the Philadelphia Forwarding Company and of its clients were the same.

The custom-house broker decided to reverse his previous decision and immediately advised his customer to accept the classification on chicken.

3. Durant Dye Importing Company

DISCONTINUANCE OF IMPORTATION OF GERMAN DYES

The Durant Dye Importing Company was founded in 1880 in Philadelphia for the importation of dyestuffs on its own account. In 1914 imported dyes comprised 85% of total sales; the balance consisted of dyes which could not be obtained from foreign sources and were purchased from domestic manufacturers. In 1923 circumstances developed in connection with the importation of an order for German dyes which made it necessary for the manager of the Durant Dye Importing Company to decide whether or not to continue importation of foreign dyes.

During the period 1914-1918 importation of dyestuffs, most of which had come from Germany, decreased, and production of coal tar dyes was promoted by domestic manufacturers. Prior to 1914 German companies had secured patents for dyestuff formulas from the United States Patent Office. In 1918 these patents were seized by the Alien Property Custodian and sold to the Chemical Foundation, an association of domestic dye manufacturers. Heavy protective duties were levied against foreign dyes in the Emergency Tariff Act of 1921, approved May 27, 1921. The McCumber-Fordney Tariff Act of 1922, passed September 21, 1922, outlined a specific duty of 7 cents a pound, plus 60% ad valorem.[1] In 1923 the United States Attorney General entered suit in the Federal courts against the Chemical Foundation for the return to the government of the German dye patents. A condition of sale of patents to the Chemical Foundation was that any person who imported a dyestuff covered by the

[1] Tariff Act of 1922, Title I., Par. 28.

" . . . . 45 per centum ad valorem based upon the American selling price (as defined in subdivision (*f*) of section 402, Title IV) of any similar competitive article manufactured or produced in the United States, and 7 cents per pound: *Provided*, That for a period of two years beginning on the day following the passage of this Act the ad valorem rate of duty shall be 60 per centum instead of 45 per centum. If there is no similar competitive article manufactured or produced in the United States then the ad valorem rate shall be based upon the United States value, as defined in subdivision (*d*) of section 402, Title IV."

For summary of section 402, Title IV, see Part I, chap. viii, pp. 165-167.

German patents should pay to the Chemical Foundation 10% of the selling price. Record was kept of importations at customs ports, but prior to December, 1923, the Durant Dye Importing Company had received no requests for payment. In 1918 it had joined the Chemical Foundation and had erected a domestic manufacturing plant. In 1923, approximately 15% of total sales was imported dyes.

In May, 1923, the Durant Dye Importing Company received a special order for two barrels or about 1,000 pounds of "anthracene brown." The company had kept in close touch with domestic manufacturers and believed that this dye was not produced in the United States and, in accordance with its policy, cabled the order to a well-known German manufacturer. The two barrels arrived the middle of June and a customs broker entered the merchandise. The port customs office had no appraisal data to cover the shipment, and the appraiser had to communicate with New York. When the McCumber-Fordney Tariff Act was passed, government laboratories in New York were not organized sufficiently to appraise and test dyestuffs, and an organization had to be developed under the Civil Service system. There was a delay in appraisal in New York, and finally, the customs broker stated that "anthracene brown" was appraised as a competing dye.

The manager of the Durant Dye Importing Company had estimated an American valuation upon which duty was to be levied at $1.30 computed on the formula given by the Tariff Act for a non-competing dye. This figure had to be computed as of date of shipment.[2] The Board of Appraisal in New York classified the item as a competing dye, dutiable at the American selling price, stated to be $2.50.[3] Specific duty, moreover, was to be at the rate of 21 cents a pound instead of 7 cents a pound because

[2] See Tariff Act of 1922, Section 402 (*d*).

[3] United States Tariff Act of 1922, "Title IV, Section 402. Value—(*f*) The American selling price of any article manufactured or produced in the United States shall be the price, including the cost of all containers and coverings of whatever nature and all other costs, charges, and expenses incident to placing the merchandise in condition packed ready for delivery, at which such article is freely offered for sale to all purchasers in the principal market of the United States, in the ordinary course of trade and in the usual wholesale quantities in such market, or the price that the manufacturer, producer, or owner would have received or was willing to receive for such merchandise when sold in the ordinary course of trade and in the usual wholesale quantities, at the time of exportation of the imported article." (See also Part I, chap. viii, pp. 165-167)

the American product had so-called single strength, and the imported product triple strength.[4]

The manager of the Durant Dye Importing Company went to the New York office of the Board of Appraisers, where he obtained, after several days' delay, the mimeographed form listing the colors produced in the United States corresponding to the imported dyes which were called "competing," and other mimeographed forms which listed colors not produced in the United States, called "non-competing." He wrote to American manufacturers requesting quotations on "anthracene brown" and received reports that this was not manufactured in the United States. He stated to the local customs collector that the dye was "non-competing"; documentary proof was furnished by presentation of the correspondence from American manufacturers. After further consultation in New York, "anthracene brown" was classified as a non-competing product, dutiable at the value declared by the importer. The shipment was released from bond on December 14, 1923.

The importer had, in the meantime, paid warehouse charges, the expense connected with trips to New York, and customs brokerage expenses which were unusually large because of the extended term of the discussion. The customer had waited more than six months for delivery. Current sales were being made at prices 25% lower than at the time of the order in May. On this importation, 10% of the selling price was due the Chemical Foundation. The Durant Dye Importing Company doubted that the purchaser would accept the shipment, not only because of the delay, but also because current importations could be secured at a lower price.

This instance was an example of the difficulties to be met if the Durant Dye Importing Company was to continue importation of foreign dyes, and the management was undecided whether or not to pursue its former policy.

Of approximately 900 colors, about 75% were produced in the United States. Record of this production was kept on the

[4] Title I, Par. 28. "That the specific duty of 7 cents per pound herein provided . . . . shall be based on standards of strength which shall be established by the Secretary of the Treasury, and that upon all importations of such articles which exceed such standards of strength the specific duty of 7 cents per pound shall be computed on the weight which the article would have if it were diluted to the standard strength, but in no case shall any such articles of whatever strength pay a specific duty of less than 7 cents per pound."

customs reports and mimeographed at the New York appraisers' stores. Importers were not informed promptly of current changes, and, therefore, were likely to misrepresent unintentionally American valuation figures. Importers were subject to a penalty of 1% for each 1% of undervaluation. Goods were confiscated and additional heavy penalties were levied when there was 75% undervaluation, since this was presupposed to indicate fraud.

The reputation of the Durant Dye Importing Company, however, was based on importation of foreign dyes. Ultimate consumers of merchandise were prejudiced in favor of German dyes; and several customers, who preferred or who actually needed foreign dyes, demanded imported products. Discontinuance of importation meant loss of these customers and loss of sales in non-competing dyes. If non-competing dyes were purchased from other importers and resold, selling prices might be too high to insure profits for the Durant Dye Importing Company. Sales of imported dyes were 15% of the total and this volume was not to be disregarded.

Ad valorem duties were to be reduced from 60% to 45%, on September 21, 1924, according to the Tariff Act. Varying political conditions might result in an altered tariff, but the extent of change or the time it was to take place could not be foreseen.

The Durant Dye Importing Company could continue importation and sell the dye on a cost plus profit basis or transfer the goods without profit if market prices declined before delivery was made. To continue importation meant constant recurrence of incidents such as that outlined. As domestic manufacturers became accustomed to the operation of the McCumber-Fordney tariff, domestic prices would become stabilized. The Durant Dye Importing Company expected a continued decrease in prices. Under these circumstances prices on foreign dyes were likely to be too high to offer keen competition. In 1923, manufacturers were buying imported dyes in smaller quantities and more often. The necessity for prompt delivery required increased stocks in the warehouses of the Durant Dye Importing Company.

German dyes were not so near the standard or so reliable as they had been previously. Although this situation logically ought to be taken into consideration by the ultimate user, any variations in quality reflected in reality on the reputation of the importer. The trust organization of the German dye industry prevented,

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German dyes were not so near the standard or so reliable as they had been previously. Although this situation logically ought to be taken into consideration by the ultimate user, any variations in quality reflected in reality on the reputation of the importer. The trust organization of the German dye industry prevented,

for the most part, any competition among German manufacturers. It was, therefore, impossible to secure competitive quality or prices.

The Durant Dye Importing Company decided to discontinue its importation of foreign dyes.

4. Andrews Company

ATTEMPT TO LOWER THE DECLARED VALUATION OF MERCHANDISE

The Andrews Company was organized in 1921 to act as the American agent for an English manufacturer of surgical supplies. Early in 1923 the price of the manufacturer to the Andrews Company upon a specific grade of finger cots was reduced from 21 shillings, the catalog price, to 17 shillings 6 pence per gross for large orders. It was necessary for the Andrews Company to determine the value at which the future shipments should be declared for dutiable purposes.

The company imported annually merchandise to the value of from $50,000 to $260,000. One of the most important of these imports was finger cots which were sold both under the manufacturer's brand name and unbranded to wholesale druggists, hospital supply companies, and agents situated in the eastern and middle-western parts of the United States. Previous to 1923 the number of finger cots imported by the company had fluctuated between 400 and 600 gross per month. As a result of the establishment of new agencies, the company was able to increase its imports to 1,000 gross per month. Because of the larger quantity of purchases, the manufacturer reduced his price to all purchases which averaged 1,000 gross per month or more from 21 shillings to 17 shillings 6 pence per gross. The Andrews Company was the largest single purchaser of this article from that manufacturer. Usual wholesale purchases amounted to from 100 to 500 gross. Twenty-one shillings remained the standard wholesale list price. The manufacturer had considered the Andrews Company as an agent, not as a wholesaler, and therefore gave it a discount of 10% from the list price. The Andrews Company was to continue to receive this discount on the new price.

The duty which the company had been paying on the cots

amounted to 25% ad valorem on the declared value of 21 shillings; or 5 shillings 3 pence per gross[1] converted into dollars at the rate of exchange prevailing on the day the merchandise was shipped from England. A reduction in the declared valuation to 17 shillings 6 pence, the president of the Andrews Company believed, would reduce the import duty to the dollar equivalent of 4 shillings 4½ pence a gross. The president was of the opinion that a sworn statement made by the manufacturer that all purchasers of similar quantities would receive the same price made it possible to declare the cots at 17 shillings 6 pence.

The company had found that it was necessary to declare a value for dutiable purposes upon the finger cots which was 10% higher than that which it actually paid. The English manufacturer distributed his products in England through wholesalers. He published a catalog which contained the prices charged the wholesalers for each article which he manufactured. A copy of this catalog was kept in the customs offices of the port through which the Andrews Company imported its merchandise and was used by the customs officials for determining the value of the products in England. The reduced price allowed for quantity purchases was not published in the catalog. The customs officials always had refused to allow the Andrews Company to declare for dutiable purposes the value per gross of 21 shillings less the discount of 10%. They had contended that the discount was a special concession to the Andrews Company. At the time the price of the finger cots had been reduced to 17 shillings 6 pence, the English manufacturer had made a sworn statement before the American consul in London, stating that a similar price would be offered to any purchasers who ordered 1,000 gross a month. This statement was made especially for the president of the Andrews Company. He believed that since the lower prices had been received because of the large quantity of purchases, and since other purchasers of similar quantities would receive the same price, that he was justified in declaring a value of 17 shillings 6 pence for dutiable purposes. Without further investigation, the value

[1] Tariff Act of 1922, Paragraph 1439: "Manufacturers of bone, chip, grass, horn, quills, India rubber, rubber, gutta percha, palm leaf, straw, weeds or whale bone, or of which these substances or any of them is the component material of chief value, not especially provided for, 25 per centum ad valorem; . . . ."
See also Part I, chap. viii, for summary of Section 402 of the Tariff Act of 1922 relative to valuation.

of the first shipment of 1,000 gross was declared at the rate of 17 shillings 6 pence a gross.

The president of the company was notified immediately by the customs officials that he had undervalued his merchandise and was subject to the fine for such action.[2] Although he contended that the price was that which any purchaser of similar quantity would pay, and showed the sworn statement to prove his contention, the customs officials declared that he had not purchased in the usual quantities and hence had to declare his merchandise at the value of orders of the usual size. They maintained that the sworn statement designated what the manufacturer would do and not what he did do.

The president of the Andrews Company consulted his attorney and his Congressman. The Congressman advised that he appeal the decision of the customs officials. The attorney advised that the position taken by the customs officials was correct.

Following the attorney's advice, the company paid the increased duty and the fine, the latter alone amounting to 20% of the value of the order, which was set at 21 shillings a gross. The president decided to adopt the policy of declaring all future shipments of merchandise at the value listed in the catalog published by the manufacturer, even though these prices did not take into account the agency discount which the Andrews Company received, or the lower price which it paid because of quantity purchases.

5. Beard Import Company

ESTABLISHMENT OF A PRIVATE BONDED WAREHOUSE

The Beard Import Company, of Boston, imported and packed fruits, nuts, raisins, tapioca, and similar products. It sold 85% of the gross tonnage of its merchandise to wholesale grocers throughout the United States and 15% of it to merchants in foreign countries. About 50% of the products which it imported were packed and branded by the Beard Import Company before

[2] Tariff Act of 1922, Section 489. "If the final appraised value of any article of imported merchandise which is subject to an ad valorem rate of duty, or to a duty based upon, or regulated in any manner by the value thereof, shall exceed the entered value, there shall be levied, collected, and paid, in addition to the duties imposed by the law on such merchandise, an additional duty of 1 per centum of the total final appraised value thereof for each 1 per centum that such final appraised value exceeds the declared value in the entry."

they were resold; the remaining 50% of its imported products were resold without being repacked or branded.

Until 1923 the company had stored its products in about five public bonded warehouses located throughout the city. A substantial proportion of its imports was stored in bond with the Franklin Warehouse Corporation. In the latter part of 1922, the traffic manager of the Beard Import Company estimated that the bonded warehouse charges would aggregate about $55,000 in 1923, even with the 25% reduction which had just been announced by the warehouse companies. He believed that the company could maintain a warehouse of its own for approximately the same sum and obtain various advantages; he decided, therefore, that the company should investigate the possibilities of maintaining its own bonded warehouse.[1]

The company had used about the same amount of space in warehouse throughout the year. During the first nine months the merchandise kept in storage was mostly dried prunes, figs, dates, and other dried fruits which were purchased in large quantities and could be stored for three or four months without deterioration. Such products, which represented 75% of its purchases, were packed under the company's brand before they were resold. During the last three months of the year, nuts, citrons, fruits, and coconuts, most of which were sold without further packing by the company, were stored in warehouses for only a few days before shipment to customers.

A portion of the product to be re-exported was packed and shipped from the factory after it had been entered. Application was made for drawback on the duty paid. The remainder was not packed or branded and, therefore, was not entered for consumption before it was re-exported.

Bonded warehouse companies were responsible for shortages in delivery of merchandise which had been kept in storage for their customers but not for any spoilage or deterioration in the merchandise unless it were due to negligence. The experience of the Beard Import Company had been that it was cheaper to maintain two or three of its own inspectors to examine all merchandise, which it kept in these bonded warehouses, rather than to rely on the inspection of the warehouse company. During the winter

[1] See Part I, chap. iii, for kinds and functions of bonded warehouses.

months, when the products spoil less quickly, it was necessary to maintain only one inspector.

The Beard Import Company learned that the Franklin Warehouse Corporation might be induced to lease a warehouse which was large enough to store all the Beard Import Company's products. This warehouse had a waterfront location within five or six city blocks of the company's factory. The Beard Import Company believed that this warehouse could be leased for $25,000 a year because the Franklin Warehouse Corporation was paying high taxes on the property and did not utilize the warehouse fully.

To concentrate all its merchandise in one warehouse so close to the company's factory would be desirable both from the point of view of withdrawing merchandise from the warehouse quickly and of combining different products for shipment to one customer. The possibility of a fire hazard, if all the products were kept under one roof, was an important consideration, but fire walls might be erected at the cost of $3,000 to $5,000 to prevent total loss of all the merchandise which the company might have in storage.

Concentration of its merchandise eliminated three or four additional handlings which were necessary when the merchandise was stored at a distance from the waterfront and permitted the product, especially if it were perishable or crated, to be delivered to customers in better condition. The Beard Import Company could remove its merchandise at any time from its own bonded warehouse upon securing proper "entry" from the customs officials. Delays in removal of goods from public warehouses were frequent when the warehouse companies were busy handling many shipments.

The company often could not procure the desired storage space in one warehouse for its merchandise, which necessitated the use of several warehouses. Available space was so scarce occasionally that merchandise had to be placed in rooms where the temperature or ventilation was not satisfactory. Charges were based on the type of merchandise stored and not on the amount of space it occupied. It was necessary for the Beard Import Company to pay a minimum charge of one month's storage on all articles. During the periods when the company kept its merchandise in a warehouse for only a few days before shipment to its customers, these charges seemed unreasonable.

Even though there might be a saving in the storage charges, the estimated cost of labor and other miscellaneous charges, including a government warehouse inspector, a United States bond, a foreman, shipping clerk, general labor, a watchman, power, nut bins, and hand trucks was estimated at $27,000 as compared with $24,000 charged for such service by the general bonded warehouse companies which had been storing the Beard Import Company's products.

The Beard Import Company had in its organization two or three men who were familiar with all the technicalities of maintaining a warehouse. They would be a nucleus around which to form a warehouse organization.

Table 1

Estimated Comparative Warehouse Costs

Public Bonded Warehouses		Own Warehouse	
Labor	$24,000.00	Labor and Miscellaneous	$27,000.00
Storage	31,000.00	Rent	25,000.00
Total	$55,000.00		$52,000.00

The estimated figures for storage in public warehouses were based upon the charges of the Franklin Warehouse Corporation. Smaller bonded warehouse companies quoted lower rates on most of the articles which the Beard Import Company imported. If the rates of these other companies were used in computing warehouse costs for 1923, the estimated figure might be $2,000 or $3,000 less than $55,000 a year.

Fluctuations in the size and quality of importations might involve risk in the maintenance of its own warehouse because the warehouse might not be utilized fully. Fluctuations in crops in the past had influenced only slightly the amount of the company's purchases. Purchases, moreover, were made from various countries, including the Near East, Spain, and Central America. The possibility of poor crops in all these countries at the same time was improbable.

The Beard Import Company believed that the several advantages of maintaining its own bonded warehouse would warrant a rental as high as $30,000 for its own warehouse. In December, 1922, the traffic manager of the Beard Import Company made an offer to the Franklin Warehouse Corporation of $25,000 a year for a 10-year lease for the use of the warehouse.

6. Duerr Soap Company

ORGANIZATION OF MANUFACTURERS FOR TARIFF AND OTHER PURPOSES

Immediately after the passing of the Tariff Act of 1922 in September, 1922, about 100 manufacturers of soap, including the Duerr Soap Company, one of the largest soap manufacturers in the United States, contemplated establishing in Washington a "Bureau of Raw Materials," an organization "for the purpose of research and the advancement of economic policies that would promote the development of the oils, fats, and oil bearing, producing, and manufacturing industries of the United States in domestic and foreign markets."[1] The principal domestic and imported oils and greases used by soap manufacturers, some of whom manufactured oleaginous food products, as well as soap, included in the edible group: hog lard, oleo oil, oleo and lard stearine, edible tallow, cottonseed oil, peanut oil, corn oil, olive oil, and coconut oil; and in the industrial group: inedible tallow, all greases, degras, neatsfoot oil, all fish oils, whale oil, palm oil, and soya bean oil. Under the Tariff Act of 1913, peanut oil, corn oil, olive oil, degras, neatsfoot oil, fish oils, and whale oil were the only ones which could not be imported free of duty.

With an increase in the demand for edible oils for use in food products and the growth in the soap industry, the importation of oils, both edible and industrial, increased as shown in Table 1.

The producers of oils and fats in the United States stated that about 30% of the American production of edible and about 6% of the industrial oils were exported. These producers believed that there was enough of most of the oils and greases used by soap manufacturers in the United States to take care of their requirements without importations from abroad. The dairymen and packers, consequently, through the organizations in Washington which they had formed to guard their interests, succeeded in having a duty placed in the Tariff Act of 1922 on practically all of the edible and industrial oils and fats used by soap manufacturers except palm oil and inedible tallow. Furthermore, the duty on those oils and fats which were dutiable under the 1913 Tariff Act was increased as shown in Table 2.

[1] Pamphlet of May, 1924, *Purpose, Summary of Work, and Organization of the Bureau of Raw Materials.*

Table 1

Importation of Edible and Industrial Oils into United States*

(Years Ending June 30)

	1913	1914	1922	1923	1924
Oleo	9,540,347.00 lbs.	5,679,535.00 lbs.	292,733.00 lbs.	....	....
Cottonseed oil	3,383,906.00 lbs.	17,510,918.00 lbs.	39,783,718.00 lbs.	....	127,503.00 lbs.
Olive oil in bulk	1,682,638.90 gals.	1,895,021.98 gals.	3,365,296.00 gals.	418,626.00 gals. (inedible)	....
Coconut oil except from P. I.	50,493,858.00 lbs.	74,588,195.00 lbs.	196,372.00 gals. 578,666.00 lbs.	....	....
Whale oil	1,166,339.15 gals.	290,745.20 gals.	4,271,072.00 gals.	7,327.00 gals.	....
Palm oil	48,442,662.00 lbs.	61,753,482.00 lbs.	57,516,889.00 lbs.	15,797,424.00 lbs.	....
Peanut oil	1,221,676.46 gals.	774,143.40 gals.	220,219.00 gals. 734,235.00 lbs.	1,827,887.00 lbs.	....

* *Foreign Commerce and Navigation of the United States*, United States Bureau of Foreign and Domestic Commerce, Years 1914-1922-1924.

TABLE 2

DUTIES UNDER TARIFF ACTS OF 1913 AND 1922*

	1913	1922
Peanut oil	6 cents a gallon	4 cents a pound
Olive oil	20 cents a gallon	6½ cents a pound
Degras	¼ cent a pound	½ cent a pound
Fish oils	3 cents a gallon	20% ad valorem
Whale oil	5 cents a gallon	6-10 cents a gallon

* Tariff Act of 1913, sections 44-45; Tariff Act of 1922, sections 53-54.

In the opinion of soap manufacturers the problem of the American producers of oils and fats was to merchandise their exportable surplus at favorable prices rather than to attempt by higher tariff to protect domestic production. The attitude of the soap manufacturers is given in a pamphlet[2] issued by the proposed Bureau as follows:

> When the European markets, which were edible oil markets, were depressed by reason of the European buyers having got their supplies of edible fats and oils for manufacture into commodities which compete with American edible oils and greases at cheaper prices because American buyers could not compete with them, edible oils and fats should sell at a lower price scale in American markets. Similarly industrial oils and fats would sell at a correspondingly lower scale.
>
> If unfavorable market conditions existed for the edible grades, the effect of them was manifest almost at once in the market for the industrial grades. The interest of American producers of the industrial grades of oils and fats was identical with American producers of prime edible oils and fats in opposing a tariff policy which diverted foreign oils and fats, shut out of America by tariff barriers, into the export markets for the great exportable surplus of American edible oils and fats.
>
> Since nothing prevented the use of prime edible oils and fats in the manufacture of inedible products, except the reluctance of the producers of high-grade edible oils and fats to sacrifice their value when they were sold for such usage, it was readily apparent that any unusual circumstances which might tend to aggravate the undesirable market conditions under the 1922 tariff act, such as the outturn of a normal cotton oil production in the United States, would demonstrate completely the effect of duties upon foreign oils and fats.

To combat the influence of the organizations of the dairy farmers and packers from advancing legislation which soap manufacturers considered unwise, the latter proposed to form the

[2] Pamphlet of May, 1924, *Purpose, Summary of Work, and Organization of the Bureau of Raw Materials.*

Bureau of Raw Materials. Most of the soap manufacturers, including the Duerr Soap Company, were associated already in the Soap Division of the Specialty Manufacturers Association which was organized to establish ethical principles concerning the marketing and manufacturing of specialty products. The Bureau of Raw Materials would confine itself to tariff matters which were too voluminous and detailed for the Specialty Manufacturers Association to take care of, to special problems connected with investigations on conditions in the raw material producing countries, to securing statistical information and to performing other services that can best be done by an organization in Washington where close contact can be made with government bureaus that deal with both the technical and commercial aspects of raw materials, such as the Bureau of Foreign and Domestic Commerce and the Bureau of Standards in the Department of Commerce; and the various bureaus of the United States Department of Agriculture, such as the Bureau of Chemistry.

The Bureau of Raw Materials was to keep a record of prices of all oleaginous materials in domestic and foreign markets. It was to watch for misstatements of facts in newspapers and periodicals concerning vegetable oils and correct them in order that the public might not gain an unfavorable impression regarding the soap industry. It was to contribute to the tariff commission information which could not be obtained from other sources. The Bureau of Raw Materials did not plan to investigate the tariff with the possibility of recommending reductions in duty on other products such as cresylic acid, which the Duerr Soap Company alone imported for use in the manufacture of one of its brands of soap. The cost to establish and maintain such a bureau in Washington was estimated to be about $30,000 a year. It was to be supported by voluntary contribution. Companies the size of the Duerr Soap Company were expected to donate about $1,500 a year.

The Duerr Soap Company manufactured colored soaps and soap products. About 10 years previous to 1922, 90% of the oils and fats used by the Duerr Soap Company in the manufacture of its soap were purchased from domestic producers of industrial oils, and 10% were imported. The imported oil was mostly coconut oil, 90% of which was obtained from the Philippine Islands, and the remainder from Ceylon. It also imported

some palm oil from West Africa. In 1922, the company was using 50% imported and 50% domestic industrial oils and greases in its products. About 90% of the imported oil was palm oil from West Africa, and the other 10%, coconut oil. All the coconut oil was purchased in the Philippine Islands after the inauguration of the 1922 Tariff Act because coconut oil could be imported from there free of duty.

The Duerr Soap Company was not affected by the Tariff Act of 1922 because the only oil which it imported was palm oil, and that bore no duty. The executives of the company expected, however, that the organizations of the farmers and packers in Washington might try to have a duty placed on all oils. If it supported the Bureau of Raw Materials, the Duerr Soap Company could use its influence to prevent the placing of a duty on the oils and greases which it imported. The Bureau of Raw Materials would present the unified complaints of soap manufacturers and, therefore, would make more impression upon congressional representatives than would be possible through any individual effort.

By joining with other soap manufacturers in an attempt to maintain a lobby organization in Washington, the Duerr Soap Company might incur ill will, since undesirable publicity might be given to the Duerr Soap Company by the dairy farmers and packers who favored a tariff on oleaginous materials.

XIV

DISTRIBUTION OF IMPORTED PRODUCTS

1. Standish Importing Company

DISTRIBUTION OF COCOA BEANS THROUGH BROKERS

The Standish Importing Company was established in Boston in 1921 to import cocoa beans and other raw materials from foreign producers for sale directly to manufacturers of cocoa and chocolate in New England. Sales were made by the personal solicitation of the general manager and his assistant. The general manager, who understood the production and marketing of cocoa beans from his experience in Brazil, was inexperienced in the sale of cocoa in the United States. Sales of this product did not develop satisfactorily. In 1923, therefore, a new general manager was employed. In his opinion the company had adopted an unsatisfactory method of distribution of cocoa beans and he advised a change in policy to distribution through brokers.

The total consumption of cocoa beans in the United States was approximately 3,000,000 bags annually. Of this quantity about 25% was consumed in New England. Previous to the establishment of the Standish Importing Company in 1921 there had been no cocoa importers or brokers in that territory; all cocoa was purchased through brokers in New York. Ninety per cent of the cocoa beans used in the United States were purchased through New York brokers who did not import upon their own account but who sold for importers and dealers. At the time that the company was incorporated in 1921, it was believed possible to sell cocoa directly to purchasers rather than through brokers. The establishment of new shipping lines made it possible for cocoa to be brought directly into New England. In sales of spot cocoa the Standard Importing Company would have an advantage over the New York importer by saving the freight from New York, which amounted to from 25 cents to 30 cents a hundred pounds. The price of cocoa beans normally fluctuated between 6 and 10 cents a pound. A preliminary investigation made by the general

manager before the incorporation of the company led him to believe that the manufacturers were not opposed to buying directly from an importer rather than from brokers. The general manager estimated that he could sell at least 10% of the quantity of cocoa used in the territory.

Because of the inexperience of the general manager in selling cocoa, the company had been confronted immediately upon organization with an unexpected difficulty. Since the only city in the United States in which there was a cocoa market was New York, it was necessary to base the price of cocoa in New England on the market price at which brokers were selling in New York. Over 50% of the cocoa consumed in the United States was sold by the three largest brokers in New York. The Standish Importing Company sold only 4,000 bags during 1921. Since the market price fluctuated even within a single day, the company had found no satisfactory way of ascertaining the daily price in New York City. Since the company was competing directly with the brokers in that city, it could not receive correct current information from them as to price. The only basis which the company had for determining price was the Brazilian quotations. Speculators in New York, however, purchased substantial quantities of cocoa at times when prices were low; these stocks frequently were sold after a rise in prices had taken place, the actual sale often being consummated at a price somewhat lower than the quotations for that day in Brazil. When a consumer notified the Standish Importing Company that he desired to purchase cocoa, the Standish Importing Company, having no knowledge of the prices which existed that day in New York, quoted a price based upon the Brazilian quotation, only to find that its price had been so much above the market price quoted in New York that its product was not considered. In other instances, when spot cocoa beans in New York were high because of small stocks, the company had found that it often had quoted a price which was low when compared with the New York prices. The situation was made even more difficult by the fact that prices quoted by New York brokers to purchasers of several thousand bags were different from those quoted to purchasers of a few hundred bags.

The new general manager contended that the method of direct distribution without brokers was also unsatisfactory for another reason. The majority of the manufacturers and other users of cocoa beans were accustomed to purchase from brokers because of the satisfactory service which had been rendered by them. The brokers attempted to determine the reliability of importers, decided whether or not the cocoa beans being delivered met the qualifications of the contract, and frequently gave the purchaser information as to the conditions of the crops. The company found it difficult to convince consumers of its own reliability.

Previous experience of manufacturers and users of cocoa beans with many direct importers had been unsatisfactory. Since it was customary for users of cocoa to contract for their needs three or six months in advance, speculators and importers of no financial responsibility had engaged in the business temporarily and sold cocoa for future delivery. They frequently did not deliver the cocoa unless the purchase price had declined by the date of delivery to the point where they could make a profit. In order to obtain orders directly from consumers, it frequently had been necessary for the Standish Importing Company not only to prove its financial responsibility, but also to offer a lower price than that quoted by the broker.

Another advantage of selling through brokers was that consumers customarily required several grades of cocoa at one time. The Standish Importing Company followed the customary practice of selling only two or three grades. The purchaser preferred to give his entire order to a broker and to allow him to distribute it rather than to be troubled by interviewing the representatives of several importing companies. It was also pointed out that the Standish Importing Company could continue to bring its cocoa beans into New England if it sold through New York brokers. If it should sell through New York brokers, it would still have the advantage on sales from stock of the saving in freight from New York. It would also be able to give quicker deliveries.

There were several possible objections to changing. It would cost the Standish Importing Company 1% of net sales to distribute through brokers. Little reduction in overhead would result from the change. It was difficult for a recently established company to secure a responsible broker. The reputation of the broker and the good-will of his customers depended upon the willingness of the importers to fulfil their contracts regardless of the profit or loss which resulted. It was, consequently, of the greatest importance to the brokers to be agents only for re-

sponsible importers. Newly established importers, or those whose financial stability was not proved, frequently had to content themselves with brokers who were not widely known.

A further objection to the policy of marketing through brokers was that the latter distributed as they desired the orders which they received. If a customer offered to purchase a quantity of cocoa beans at a definite price, the broker was not obligated to transmit this offer to all cocoa importers. This distribution might be affected by the broker's personal desires and prejudices. Another disadvantage occurred in times of business depression; if an importer attempted to increase his sales by personal solicitation of customers, he gained the ill will of his brokers because he was taking from them possible commissions. After business conditions improved, the brokers would not be likely to favor him in any transaction.

The company decided to change its methods of distribution by selling through brokers.

2. Strachey Tea and Coffee Company

A PROPOSED PLAN FOR NATIONAL ADVERTISING OF TEA

The Strachey Tea and Coffee Company was a large coffee-roasting and tea-packing company which sold high-grade teas and coffees under a nationally advertised brand. The company imported annually between 26,000,000 and 27,000,000 pounds of coffee and about 500,000 pounds of tea.

The competitors of the Strachey Tea and Coffee Company sold tea under nationally advertised brands and under private brands of wholesalers, chain stores, and retailers. The competitors consisted both of companies specializing in tea and companies selling both tea and coffee. Because of the relatively small quantity of tea sold by the Strachey Tea and Coffee Company, it did not hold so important a position in the tea trade as it held in the coffee trade. It was one of the six largest coffee-roasting companies in the United States.

In 1919 the National Coffee Roasters Association appointed a joint coffee trade publicity committee to supervise a national advertising campaign. The funds for conducting this campaign came from two sources: First, a tax of about 2 cents a bag was

levied by the state of São Paulo against all coffee exported from Brazil; second, voluntary contributions were made by coffee roasters who were members of the National Coffee Roasters Association and by a few green coffee merchants in the United States. The funds received from the tax placed upon Brazilian coffee had amounted annually to from $200,000 to $250,000. The money contributed by coffee roasters and green coffee merchants had amounted to from $40,000 to $50,000 annually.

The "Sociedade Promotora da Defesa do Cafe," an organization consisting largely of Brazilian coffee growers, appointed a representative who worked with the joint trade publicity committee of the National Coffee Roasters Association. It had been agreed between the Sociedade Promotora da Defesa do Cafe and the National Coffee Roasters Association of the United States that the American contributions should pay all office expense and advertising agency commissions. This made it possible for the funds supplied by the Brazilian growers to be spent only for actual advertising. These funds were spent for advertising in newspapers in all parts of the United States, for circulars and pamphlets, and for a weekly bulletin distributed to about 5,000 wholesale grocers. In addition to this, $40,000 had been spent for a comprehensive survey of the physiological and nervous effects of coffee drinking. The campaign had attempted also to counteract the advertisements of companies manufacturing coffee substitutes. It was the opinion of the members of the National Coffee Roasters Association that by 1924 this latter object had been attained.

In the fall of 1924, it was uncertain whether the cooperative campaign would be continued. The National Coffee Roasters Association did not know whether Brazilian coffee interests desired to continue their part of the contribution. Although the $40,000 to $50,000 contributed by the coffee roasters and green coffee merchants had been collected each year, the amount had been raised in 1924 with great difficulty. The contributors of former years had contended that since contributions were not being made by all the coffee roasters, it did not seem fair for a few to continue to bear the burden. Several of them had stated also that the increased demand resulting from the advertising had caused prices of green coffee to rise, and that it was unwise to continue to increase the consumption when such increased

consumption resulted in an increase in price. Other coffee roasters contended that the increased consumption of coffee had not been the result of the advertising but had been the result of the national prohibition law.

The consumption of coffee in the United States had been as shown in Table 1.

TABLE 1

CONSUMPTION OF COFFEE IN THE UNITED STATES, 1900-1924*

Year	Bags of 60 Kilos
1900-1901	5,844,000
1904-1905	6,688,000
1909-1910	7,277,000
1911-1912	6,759,000
1913-1914	7,540,000
1915-1916	8,849,000
1917-1918	8,595,000
1919-1920	9,647,000
1920-1921	9,696,000
1921-1922	9,545,000
1922-1923	9,730,000
1923-1924	10,758,000

* Nortz & Company, *Coffee and Sugar Facts*, pp. 28-29.

Table 2 shows the world's production of coffee from 1920 to 1925.

TABLE 2

WORLD PRODUCTION OF COFFEE, 1920-1925*

(In number of bags)

Year	Brazil	Countries Other Than Brazil	Total World Production
1920—1921	14,496,000	5,787,000	20,283,000
1921—1922	12,862,000	6,926,000	19,788,000
1922—1923	10,194,000	5,705,000	15,899,000
1923—1924	14,864,000	6,888,000	21,752,000
1924—1925†	13,900,000	6,250,000	20,150,000

* Nortz & Company, *Coffee and Sugar Facts*, pp. 28-29.
† Estimated.

The quantity of tea used in the United States was small when compared with the consumption of coffee and also when compared with the consumption of tea in other countries. While the per capita consumption of coffee in the United States had

been 11.57 pounds in 1923 and 12.47 pounds in 1924, the consumption of tea had been .85 pounds in 1923 and .93 pounds in 1924. In 1922, the consumption of tea in Australia was about 10 pounds per capita, Great Britain 8 pounds per capita, and in Canada 5 pounds per capita.

A comparison of the annual consumption of tea in the United States with that in the United Kingdom for the years 1900-1923 is shown in Table 3.

TABLE 3

CONSUMPTION OF TEA IN THE UNITED STATES AND IN THE UNITED KINGDOM, 1900-1923*

(Pounds per capita)

Year	United States	United Kingdom
1900	1.09	6.07
1905	1.19	6.02
1910	.89	6.39
1915	.91	(not available)
1920	.84	8.35
1921	.66	8.68
1922	.77	8.66
1923	.88	8.16

* *Tea and Coffee Trade Journal*, May, 1924, p. 635.

The total exports of teas from producing countries for the years 1921, 1922, and 1923 was as shown in Table 4.

TABLE 4

TOTAL EXPORTS OF TEAS FROM PRODUCING COUNTRIES FOR THE YEARS 1921, 1922, 1923*

(In number of pounds)

Country	1921	1922	1923
India	317,566,856	294,302,866	350,391,120
Ceylon	162,347,353	171,807,581	181,930,731
Formosa	10,128,000	20,089,683	13,500,000
Japan	25,502,000	28,917,300	26,250,000
Java	67,652,000	80,713,600	90,744,000
Sumatra	9,325,140	14,270,661	16,281,000

* Tea Association of the United States of America.

Because of the possibility of increasing tea consumption in the United States, the India tea growers in the first part of 1924 were advertising extensively in the daily newspapers. This cam-

paign was carried on under the auspices of the India Tea Planter Association. The funds for this advertising were secured by a tax of 6 annas, or approximately 12 cents, per 100 pounds placed upon the tea produced in India. The total amount spent in the United States was about $200,000. The manager of the tea department of the Strachey Tea and Coffee Company had been informed that because of the advertising of this organization, the Japanese and Java producers were considering an advertising campaign in the United States.

In the opinion of the manager this advertising by different groups of foreign producers was unsound. The taste of teas from different countries sometimes varied appreciably. It was his opinion that many persons who like one type of tea might care nothing at all and possibly even might dislike another type of tea. He believed that it would be more advantageous if the funds which were being spent by organizations of producers in behalf of the tea from specific countries were pooled and a national advertising campaign for the purpose of increasing tea consumption in the United States were conducted. The manager also said that at that time there was no advertising which informed the consumer of the differences in teas; that the American public was not well informed as to the correct methods of preparing tea; and that national advertising could remedy partially this situation.

The green coffee merchants and coffee roasters purchased their coffee through New York brokers, from importers, or from coffee producers' agents in New York. The producers' agents and green coffee merchants frequently sold coffee from only one country. The coffee roasters purchased coffee from all countries, blended it, roasted it, and sold it to wholesale grocers or directly to retailers.

The tea packers purchased their tea either directly from the country of production or through brokers representing foreign exporters, or New York agents. The importers and brokers frequently were interested in teas from only one or two countries. The tea packers purchased tea from all countries, blended it, packed it, and sold it to wholesalers and retailers.

The manager of the tea department of the Strachey Tea and Coffee Company did not believe that the Tea Association of the United States of America was fitted to conduct a campaign such

as he had in mind. This association was composed chiefly of importers and brokers in New York who sold tea to tea packers. The members of the association were importers and brokers who ordinarily were interested particularly in tea from only one country. It was the opinion of the manager that the personal prejudices of these men would mitigate the opportunity for constructive action. He stated, furthermore, that the association did not represent adequately the tea industry of the United States. Since these men did not sell directly to wholesalers or retailers, the tea manager believed that they were unacquainted with the buying motives of the public and with the selling problems encountered by the tea packer. He contended that just as coffee had been advertised by the coffee roasters who imported coffee from all countries so tea should be advertised by tea packers or men importing tea from all countries.

Since many of the coffee roasters, who were members of the National Coffee Roasters Association, were also tea packers, he believed that it would be advisable for the latter organization to change its by-laws so as to allow all tea packers to become members. After this change had taken place, he believed that an advertising campaign by the new organization would be of advantage to the tea trade.

He recognized that objections would be raised against his proposal. In the first place, there were coffee roasters who contended that any increase in the consumption of tea would result in a reduction in the consumption of coffee. The net profit per pound of coffee was about 1½ cents and that per pound of tea about 4 cents. Several large tea packers, futhermore, had adopted a policy of independent action at all times and he doubted if these companies could be induced to cooperate. The fact that the bulk of coffee is produced in one country makes cooperation in the coffee trade much less difficult than in the tea trade, since tea comes from several diverse sources. Although the manager believed that several of the tea-producing countries would be willing to aid the financing of such a campaign, other countries, such as Japan, would not. Many tea packers did not like the quality of Japanese tea and preferred to use teas from other countries; consequently, it might be necessary for Japan to advertise independently.

Should the Strachey Tea and Coffee Company have endeavored to secure the cooperation of other tea packers in order to seek admittance to the National Coffee Roasters Association for the purpose of conducting tea advertising similar to the coffee advertising?

3. Plymore Trading Company

ESTABLISHMENT OF DOMESTIC SALES OFFICES BY IMPORTER OF NITRATES

The Plymore Trading Company was an import and export merchant with a main office in New York City. The company bought and sold in most foreign countries, but principally in South America. It maintained branch offices in every important city on the west coast of South America. Each branch was incorporated under the laws of the country in which the branch was located and was operated independently of the Plymore Trading Company. The company, however, had joint directors with each of the branches.

Through the main office in New York and through the numerous branches, the company imported and exported a large variety of commodities. In many instances, the company bought and sold for its own account. In other instances, the company acted as agent for American manufacturers who exported to the countries in which the company operated and also for foreign producers who marketed their products in the United States. The total value of all exports and imports of the company exceeded $100,000,000 a year.

In 1914 Chile exported approximately 2,600,000 tons of nitrate of soda. The Plymore Trading Company imported about 60,000 tons of the 500,000 tons imported into the United States. There were two principal uses of nitrate of soda: as a base for fertilizer and as an essential ingredient of explosives. Hence fertilizer and gunpowder manufacturers were the chief purchasers of the nitrate of soda imported into the United States. Several of the largest manufacturers of gunpowder imported for their own accounts, but most manufacturers bought from importers.

The Nitrate Producers' Association had controlled for many years the sale of about 98% of the nitrate of soda produced in Chile. One of the large gunpowder manufacturers of the United

States and the Plymore Trading Company controlled the remaining 2%. The Nitrate Producers' Association fixed prices on nitrates. Sales ordinarily were for future shipment. The Plymore Trading Company, for example, secured from fertilizer or gunpowder manufacturers orders for delivery three or four months later. It contracted with the Nitrate Producers' Association for shipment a month or so earlier than the date of delivery in the United States.

Although there had been a continuous development of agriculture throughout the country, there had been no apparent change in the demand for nitrate of soda as a base for fertilizer for several years. A survey of agricultural conditions showed the Plymore Trading Company that the market for nitrate as a fertilizer had not been aggressively developed. The company believed that this was explained by the fact that the fertilizer manufacturers were, for the most part, conservative companies, which had been engaged in the business for many years, were satisfied with existing sales and were carrying on no advertising.

In 1915 the Plymore Trading Company decided to establish a sales office in the southern cotton belt where the bulk of imported nitrate was consumed and to add other sales offices as occasion demanded. In 1924, four such offices were in operation in different parts of the southern cotton belt from Savannah to New Orleans. The supply of nitrate was plentiful and the company secured shipments as large as it desired. One or two salesmen at each office spent full time in visiting and soliciting purchases from potential users of fertilizer. Expensive offices were not necessary. The New York office controlled the sales offices, fixed prices, and approved sales. In order to avoid assuming credit risks, the company made sales through brokers who assumed the credit risks. The branch sales offices carried stock for emergency sales but, in general, salesmen took orders for future delivery so that the company could order direct deliveries to customers and avoid storage charges. No sales from stock were sufficient to pay the overhead expenses of the offices and add materially to the company's imports. The total imports of nitrate of soda into the United States had increased from approximately 500,000 tons in the year ending June 30, 1914, to almost 1,000,000 tons during the year ending June 30, 1924. In 1924 the Plymore Trading Company imported approximately 300,000 tons, an increase of

400% over the company's imports in 1914. The company attributed this increase chiefly to the success of the sales offices in stimulating demand for nitrate fertilizer in the agricultural districts of the South.

4. Telfair Company

SPECIALIZATION OF WOOL BROKER IN TRADE WITH MERCHANTS RATHER THAN MILLS

In the fall of 1923 the Telfair Company, a firm of Boston wool brokers, secured the exclusive American agency for an Australian wool-buying broker who had a high reputation as a wool packer. The Telfair Company had acted as a selling broker of domestic wools for about five years and also acted as exclusive United States representative of a wool merchant in South America. The Telfair Company had been selling only to merchants. It wished, however, to build up a steady demand from the mills for the wool offered by the Australian broker. It was undecided in the middle of 1924 whether this could be done best by continuing to confine sales efforts to merchants, or by attempting to develop sales directly to mills.

The Australian broker previously had sold through another Boston broker who executed orders for Boston merchants. He had been dissatisfied, however, with the volume of sales in America, and did not believe that the American broker was making proper efforts to establish his packing of Australian wool in the American market. American sales of the Australian broker had reached a high point of about 2,000,000 pounds in 1918. In 1922 and 1923 the total imports of Australian wool into the United States decreased, a tendency already observable as early as 1919.[1]

American sales of the Australian broker had declined to about 500,000 pounds annually. Because of inactivity in the wool textile industry in the United States and a strong demand for wool in Europe in the first half of 1924[2] domestic wool prices ranged from 10 to 20 cents a pound below the imported price

[1] Imports of Australian Wool into the United States

Season 1916-17	48,272 bales of 330 lbs.
Season 1917-18	303,873 bales of 330 lbs.
Season 1918-19	44,514 bales of 330 lbs.

[2] See page 441 for footnote.

of similar grades of foreign wool, which had to bear an import duty of 31 cents a pound. Only small quantities, therefore, of foreign wool of those grades needed to meet special requirements were being imported.

The Telfair Company believed that with proper sales effort their share of the Australian imports could be increased, and that their sales of this wool should be about 4,000,000 pounds annually as soon as normal relations between prices of foreign and domestic wools returned. Through the exclusive agency relationship with an old and reliable Australian broker, the American broker felt assured that there would be no difficulties of certain yield or quality. The Telfair Company intended to take advantage of any opportunities that might arise to secure in other foreign primary markets exclusive agencies of foreign companies of suitable high reputation and reliability. It hoped, however, to become established firmly in Australian, South American, and domestic wools before developing additional foreign sources. It had decided to sell domestic wools also because the main buying season for South American wools lasted only about four months. Domestic wools and Australian wools could constitute sales during the remainder of the year. A table of the normal shearing seasons of the world, as furnished to the Telfair Company by its bank, is given on the following page.

A few brokers sold to both mills and merchants. The Telfair Company, however, believed it should confine its efforts either to the mills or the merchants without trying to sell to both. Merchants carried stocks and, through long associations, had built up close relations with the mills. For the broker to quote to mills the same price meant that the merchant would be deprived of his profit. This direct competition by the broker for the trade of the mills would antagonize the merchant customers, if it were decided to sell to both.

One advantage of developing trade with merchants was their accessibility. Over 250 wool merchants traded in Boston, and

[2] See page 440 for footnote reference.

Wool Textile Manufacturing—Percentage of Normal Activity*

1923,	December	108	April	89
1924,	January	110	May	74
	February	109	June	62
	March	96		

* Harvard Economic Service, *Weekly Letter*, August 23, 1924.

TABLE I

NORMAL SHEARING SEASONS OF WORLD WOOL SUPPLY

(Millions of pounds)

Month	Total	Australia	New Zealand	South Africa	Argentina	Uruguay	Europe	United Kingdom	United States
January	88	88							
February	88	88							
March	147	89							58
April	174	89						27	58
May	174	89						27	58
June	384	88					210	28	58
July	383	88					210	27	58
August	210						210		
September	235		199	36					
October	163			37	93	33			
November	165			37	94	34			
December	165			37	94	34			
Total	2,376	619	199	147	281	101	630	109	290

most of these were situated on one street. Merchants bought on their own account, and carried stocks in anticipation of mill needs or of a change in prices. Merchants thus offered a ready and easily available market at all times. Merchants were less exacting in their requirements as to grades and qualities than mills because they had as their customers a large number of mills requiring different grades. A merchant often regraded or sorted large lots of wool in order to meet specific requirements of mills. Mills purchased wool to meet definite spinning requirements. Selling to merchants thus required less sales effort and offered quick turnover. Since the broker's profit was in commissions, a high rate of turnover was desirable.

Terms to merchants on wool held in Boston ordinarily were cash less 1% in 10 days or net 30 days, while mills received terms of 60 days net. On wool shipped from Australia, terms would be the same either to merchants or mills, since it was customary to arrange for 30- to 90-day letters of credit. The wool broker, however, took no part in the financing. Current quotations and offerings were cabled by the Australian broker. The American broker secured and executed orders also by cable. A commission of from 3% to 5% was included in quotations and was divided between the American and Australian broker in a prearranged proportion. All shipping details were arranged in Aus-

tralia. Wool was shipped directly from Australia or South America to the purchaser in the United States who remitted payment to the foreign seller by documentary drafts drawn against a letter of credit. Terms on wool from Australia were c.i.f. Boston, and from South America were f.o.b. port of shipment. The broker received his commission from the foreign seller. Quotations from Australia were in pounds sterling. The American broker also quoted Australian wools in sterling instead of in dollars. This placed the burden of exchange risk upon the buyer. Mills were less willing to purchase on sterling quotations than were merchants.

The Telfair Company, however, desired to build up a permanent outlet for this Australian wool. To do this required intensive sales effort, demonstration of superior qualities, and the establishment of a reputation for delivery of wool of dependable quality and yield. Direct dealings with the mills would facilitate such efforts since the identity of the wool as originating under a particular packer in Australia often was lost when the wool was resold through merchants. By specializing in the trade with the mills, the firm might hope to develop a permanent outlet and to create good-will. Prices could be quoted which did not include the merchant's profit, since mills would receive the same price advantage as merchants ordinarily received. As the company developed sources in other foreign markets, it might secure exclusive buying agency relations with mills. A few mill owners had delegated the purchasing of wool to an exclusive buying broker who had connections in all primary markets. They believed that an exclusive buying broker who was in constant touch with all markets could purchase more economically and with less risk than could a mill wool buyer who made periodical visits to the Boston merchants.

Mills, however, were prejudiced against a broker who did not have an established reputation and had not sold wool for a decade or more. Many of the mill buyers preferred to purchase by personal calls on merchants with whom they already had been associated. They gave less attention to salesmen. Mills were scattered throughout New England. A broker selling to merchants needed only a small office and one or two salesmen. Development of the mill trade required about five salesmen for whom traveling expenses must be paid. The size of the sales force

depended on the condition of the market and the time required to develop close enough relations with mills to make quotations and execute orders over the telephone.

The broker was at a disadvantage, however, in selling to mills because no stocks were carried. Sales were made on sample, and about two months were required for delivery of foreign wools. Mill buyers usually wished to see a complete lot of wool before purchasing. Moreover, mills sometimes required wool for immediate delivery. Since purchases from the broker had to be made on small samples and payment arranged for on letter of credit before arrival of the wool, it was necessary for a mill to place a high degree of confidence in the broker.

Were the Telfair Company to sell only to mills, it might have difficulty in continuing its sales of domestic wool. No attempt had been made to send buyers to wool-producing regions. The broker had confined efforts to executing orders for sales from merchant to merchant. Samples were gathered from merchants wishing to sell and offers made to other merchants who the broker believed might desire to purchase specific lots of wool.

Since its organization five years before, the Telfair Company had confined its sales efforts to merchants because they offered an immediate and easily available market.

The Telfair Company decided to continue to limit its sales efforts to merchants. The cost of selling direct to the mills would be materially greater than that of selling to merchants because of the additional salesmen required. Since the company operated on a brokerage basis, it was dependent in any event on a fixed percentage of its transactions for its compensation. This percentage would not vary in the case of direct sales to mills, and it was questionable whether such direct sales would produce enough additional business to take care of the increased sales expense.

5. Burton Plantations Company

PURCHASE OF A SUGAR REFINERY AS AN OUTLET FOR RAW SUGAR

In 1920 the Burton Plantations Company owned and operated two centrals in Cuba with total annual output of about 1,500,000 bags, or over 200,000 tons of raw sugar. The company also owned about 100,000 acres of land on the greater part of which

sugar cane was raised. In connection with the sugar mills, it operated a distillery for the conversion of molasses, a by-product, into alcohol-ether motor fuel as a substitute for gasoline in Cuba. Offices of the Burton Plantations Company in the United States were located in New York and Philadelphia.

The entire output of the centrals in Cuba was sold to refineries along the Atlantic seaboard. Transportation charges were paid on the shipments of raw sugar from Cuba to the United States. Sales were made through brokers, who received a commission of one-fourth of 1% from the company when they placed the seller in touch with the prospective buyer. If they took charge of the actual transactions and made collections, their commissions were not less than one-half of 1%.

The sugar refining industry was limited to about 10 manufacturers operating 15 refineries along the Atlantic seaboard, with a daily production ranging from 1,000,000 to 5,000,000 pounds each. Average refinery margins, exclusive of profits, were about 2 cents a pound. The market was restricted to the eastern part of the United States, since freight rates and the import duty hindered competition with the beet sugar refineries west of the Mississippi River. The concentration of refineries reduced the number of customers to whom the Burton Plantations Company could sell its raw sugar. Shipments of raw sugar could not be timed to meet the fluctuating demand of these refineries. The expense of storage and the lack of warehouse space made it necessary to sell and deliver as quickly as possible after the cutting season. It was also necessary to obtain cash to meet the costs of operating the plantations and steamships. The refineries, however, maintained sufficient stocks of raw sugar to withhold purchases when prices were high. Consequently, producers of raw sugar could make only limited profits except in years of short crops. In 1920 the Burton Plantations Company discussed whether or not it should purchase a sugar refinery as a market for its product in order to be released from dependence upon a limited number of customers.

The refineries sold their output to confectionery manufacturers, wholesale grocers, and sugar merchants, either directly or through brokers for domestic use, or through brokers for exportation. Since the customers of the refineries were not limited in number as were the manufacturers, the refineries had a selling advantage

which the producers of raw sugar did not have. The Burton Plantations Company, therefore, believed that the sale of refined sugar was less difficult and not subject to as many fluctuations as the sale of raw sugar. Furthermore, the ownership of a refinery by a company which operated sugar plantations eliminated selling expense and brokerage commission on the raw sugar, and such minor expenses as the cost of having the imported sugar weighed by a certified public weigher. It was not necessary to duplicate the government weighing when sales were made by one part of an organization to another. The refinery would purchase sugar from the plantations on the basis of the current market price.

The Burton Plantations Company was able to finance the construction of a refinery in 1920. The executives believed, however, that without the possession of a trade name already well known it would be difficult to overcome consumer preference for other brands. They entered into negotiations with the Maquard Sugar Company in Philadelphia to purchase its refinery. This company had built up an excellent reputation for its product and its brand was well established on the market. For most economical production it was necessary for a refinery to be located in a port with a deep water channel and an abundant supply of labor, coal, and water, in addition to adequate railway and highway facilities for the delivery of the products. The Maquard Sugar Company's refinery was not a modern plant and was located about four miles from the Delaware River. The company had not been able to operate as economically as its competitors for these reasons, although it had avoided losses. This was the result of the ability of the company's buyer to purchase raw sugar at advantageous prices. The capacity of the refinery was only about 400,000 pounds a day, which was insufficient to take the output of the Burton Plantations Company. The purchase of the Maquard Sugar Company, therefore, involved constructing another plant with a capacity of about 1,300,000 pounds per day. The necessity for the proper location meant that the land required would have a high value. Although purchases by the new refinery would be limited to one source, the company believed that this disadvantage would be offset by greater efficiency and better location of the plant.

The executives of the Burton Plantations Company believed

that the capacity of the plants along the Atlantic seaboard to produce refined sugar was greater than the existing consumer demand. In spite of this fact, other companies were investing their funds in new plants. This expansion was due to the high prices offered for refined sugar, increased profits, and the fact that the demand for sugar had increased because of the greater consumer purchasing power prevailing between 1915 and 1920.

Because of the advantages to be obtained by this method of distributing its product, the Burton Plantations Company purchased the refinery in 1920 and erected a new plant on the Delaware River in Philadelphia with sufficient capacity to take the entire output of the company's Cuban plantations. The organization of the Maquard Sugar Company was retained for the operation of the new refinery and the old plant abandoned.

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17. *Purchasing Agent (The);* New York.
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In addition to the above there are many reviews dealing with the trade of special regions, such as *The Baltic-Scandinavian Trade Review* (Copenhagen); *The Swedish Eonomic Review* (Stockholm); *The Levant Trade Review* (Constantinople); *The British and South African Export Gazette* (Capetown); *The Review of the River Plate* (London); *The Far Eastern Review* (Shanghai); *The Chinese Economic Monthly* (Peking); *Mileman's Brazilian Review* (Rio de Janeiro); and so forth.

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